

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name City of Munising, Michigan	County Alger
Audit Date 6/30/05	Opinion Date 12/8/05	Date Accountant Report Submitted to State: 1/27/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC			
Street Address 102 W. Washington, Suite 109	City Marquette	State MI	ZIP 49855
Accountant Signature <i>Debecca Hill, CPA</i>		Date 1/27/06	

CITY OF MUNISING, MICHIGAN
FINANCIAL STATEMENTS
For the Year Ended June 30, 2005

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ANDERSON, TACKMAN & COMPANY, P.L.C.

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor, Members of the
City Council, and City Manager
City of Munising, Michigan 49862

We have audited the financial statements of the governmental activities, business-type activities, discretely presented component units, major funds, and remaining fund information, which collectively comprise the basic financial statements of the City of Munising, Michigan, as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, business-type activities, discretely presented component units, major funds and remaining fund information of the City of Munising, Michigan at June 30, 2005, and the changes in financial position and cash flows, where applicable, of those activities and funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management Discussion and Analysis and budgetary comparison information on pages 6 through 12 and 44 through 45 are not a required part of the basic financial statements but is supplemental information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Honorable Mayor, Members of the
City Council, and City Manager
City of Munising, Michigan 49862

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2005 on our consideration of City of Munising, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The combining and individual fund statements and schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the City of Munising, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Anderson, Tackman & Company, PLC
Certified Public Accountants

December 8, 2005

City of Munising, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the City of Munising's financial performance provides an overview of the City's financial activities for the year ended June 30, 2005. Please read it in conjunction with the financial statements, which begin on page 13.

FINANCIAL HIGHLIGHTS

- Net assets for the City as a whole increased by \$342,355 as a result of this year's operations. Net assets of our business-type activities increased by \$114,504, or 1.7 percent, and net assets of our governmental activities increased by \$227,851, or 12.7 percent.
- During the year, the City had expenses for governmental activities that were \$2,090,715 and generated \$2,318,566 in general revenues and other program sources.
- The City's business-type activities had expenses of \$1,229,673 and generated \$1,344,177 in revenues.
- The general fund reported a net change in fund balance of (\$78,353).

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 13 and 14) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 15. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for the future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside the government.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

Reporting the City as a Whole

Our analysis of the City as a whole begins on page 9. One of the most important questions asked about the City's finances is; "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the City's *net assets* and changes in them. You can think of the City's net assets - the difference between assets and liabilities - as one way to measure the City's financial health, or *financial position*. Over time, *increases or decreases* in the City's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the City's patron base and the condition of the City's capital assets, to assess the *overall financial health* of the City.

In the Statement of Net Assets and the Statement of Activities, we divide the City into three kinds of activities:

- *Governmental activities* – Most of the City's basic services are reported here, including the police, fire, public works and parks departments, and general administration. Property taxes, charges for services and state sources fund most of these activities.
- *Business-type activities* – The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's water and sewer system and marina activities are reported here.
- *Component units* – The City includes four separate legal entities in its report – the Downtown Development Authority, the Munising Housing Commission the Landfill Authority and the Alger Parks and Recreation Department. Although legally separate, these "component units" are important because the City is financially accountable for them.

Reporting the City's Most Significant Funds

Our analysis of the City's major funds begins on page 11. The fund financial statements begin on page 15 and provide detailed information on the most significant funds – not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City Commission establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using taxes, grants, and other money. The City's two kinds of funds - *governmental* and *proprietary* - use different accounting approaches.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

- *Governmental funds* – Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other financial assets that can be readily converted into cash. The governmental fund statements provide a detailed *short-term view* of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and Statement of Activities) and governmental *funds* in a reconciliation which follows the fund financial statements.
- *Proprietary funds* – When the City charges customers for the services it provides – whether to outside customers or to other units of the City – these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds. We use internal service funds (the other component of proprietary funds) to report activities that provide supplies and services for the City's other programs and activities – such as the Motor Pool Fund.

The City as Trustee

The City is the trustee, or fiduciary, for assets that – because of a trust arrangement – can be used only for the trust beneficiaries. All of the City's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 22 and 23. We exclude these activities from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

The City as a Whole

Table I provides a summary of the City's net assets as of June 30, 2005.

Table 1 Net Assets						
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
Current and Other Assets	\$1,428,405	\$1,423,266	\$1,175,946	\$1,136,580	\$2,604,351	\$2,259,846
Noncurrent Assets	2,222,991	1,245,583	6,599,945	6,582,521	8,822,936	7,828,104
Total Assets	3,651,396	2,668,849	7,775,891	7,719,101	11,427,287	10,387,950
Current Liabilities	430,700	111,316	82,353	75,067	513,053	186,383
Noncurrent Liabilities	1,192,765	757,453	750,000	815,000	1,942,765	1,572,453
Total Liabilities	1,623,465	868,769	832,353	890,067	2,455,818	1,758,836
Net Assets:						
Invested in capital assets, net of related debt	1,546,431	1,135,323	5,774,529	5,696,361	7,320,960	6,831,684
Restricted	245,852	232,427	76,973	76,973	322,825	309,400
Unrestricted	235,648	432,330	1,092,036	1,055,700	1,327,684	1,488,030
Total Net Assets	\$2,027,931	\$1,800,080	\$6,943,538	\$6,829,034	\$8,971,469	\$8,629,114

Net assets of the City's governmental activities stood at \$2,027,931. *Unrestricted* net assets—the part of net assets that could be used to finance day-to-day activities without constraints established by debt covenants, enabling legislation, or other legal requirements stood at \$235,648.

The \$235,648 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The net assets of our business-type activities stood at \$6,943,538. The City can generally only use these net assets to finance continuing operations of the water and sewer and other enterprise operations.

The results of this year's operations for the City as a whole are reported in the Statement of Activities (see Table 2), which shows the changes in net assets for fiscal years 2005 and 2004.

Table 2 Change in Net Assets						
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program Revenues:						
Charges for services	\$211,443	\$213,933	\$1,322,598	\$1,413,485	\$1,534,041	\$1,627,418
Operating grants and contributions	617,476	409,057	-	9,330	617,476	418,387
General Revenues:						
Property taxes	1,142,829	1,121,968	-	-	1,142,829	1,121,968
Unrestricted	306,168	375,510	-	-	306,168	375,510
Investment earnings	23,035	14,880	21,579	11,864	44,614	26,744
Miscellaneous	17,615	43,027	-	-	17,615	43,027
Total Revenues	2,318,566	2,178,375	1,344,177	1,434,679	3,662,743	3,613,054

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
Program Expenses:						
Legislative	\$11,578	\$11,436	\$-	\$-	\$11,578	\$11,436
General government	623,401	367,488	-	-	623,401	367,488
Public safety	467,883	495,447	-	-	467,883	495,447
Public works	830,979	919,725	-	-	830,979	919,725
Parks and recreation	117,965	122,516	-	-	117,965	122,516
Interest on long-term debt	38,909	52,581	-	-	38,909	52,581
Sewer	-	-	681,589	766,271	681,589	766,271
Water	-	-	436,921	420,657	436,921	420,657
Marina	-	-	111,163	115,678	111,163	115,678
Total Expenses	<u>2,090,715</u>	<u>1,969,193</u>	<u>1,229,673</u>	<u>1,302,606</u>	<u>3,320,388</u>	<u>3,271,799</u>
Increase (decrease) in net assets	227,851	209,182	114,504	132,073	342,355	341,255
Net assets, beginning	1,800,080	1,590,898	6,829,034	6,696,961	8,629,114	8,287,859
Net Assets, Ending	<u>\$2,027,931</u>	<u>\$1,800,080</u>	<u>\$6,943,538</u>	<u>\$6,829,034</u>	<u>\$8,971,469</u>	<u>\$8,629,114</u>

The City's total revenues were \$3,662,743. The total cost of all programs and services was \$3,320,388, leaving an increase in net assets of \$342,355. Our analysis below separately considers the operations of governmental and business-type activities:

Governmental Activities

The increase in net assets is primarily attributable to large decreases in expenditures for operation of the Public Works and Police Departments. Regular and early retirements reduced the Department of Public Works by three net positions (Four Retirees with one replacement). The Police Department absorbed one position through lay off. Interest on long term debt also continued to decrease. Modest increases in Property Taxes and Investment Income were also recorded.

Table 3 presents the cost of each of the three largest programs – General Government, Public Safety, and Public Works – as well as each program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that each program placed on the City's operation.

Table 3
Governmental Activities

	Total Cost of Services	Net Cost of Services
General government	\$623,401	\$401,094
Public safety	467,883	432,176
Public works	830,979	397,690

Business-type Activities

Net Assets increased despite substantially less realization of revenues for services. Revenues from Leachate Collection were considerably less during the late spring and summer months while a new contract was being negotiated. Expenditures in the Sewer Department were significantly reduced as a result of an early retirement, which resulted in one less staff position. Additionally, cost assignment of partial supervisory duties was appropriately reflected in the Water Department instead of the Sewer Department.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

THE CITY'S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet on page 15) reported a *combined* fund balance of \$759,468, an increase of \$49,382 from the beginning of the year.

During the year a change in budgeting procedures reflected identification of a new Capital Projects Fund instead of reporting all activities in the General Fund. The result reflects a reduction in the General Fund and a large amount in the unexpended Capital Projects Fund which is used for projects continuing into the next fiscal year.

General Fund Budgetary Highlights

Over the course of the year, the City Commission revised the budget a few times. Significant revisions to the budget included a transfer from the Downtown Development Authority for escrow taxes to be disbursed to local units. With these adjustments, actual charges to expenditures were \$46,837 more than the final amended budget. Conversely, revenues were \$20,232 more than the final budget projection. Variances in revenue were due to unbudgeted grant revenue to purchase fire equipment. Variance in expenditures in the General Fund were a result of higher fire equipment costs reimbursed by grant funds and higher costs in the Public Works Department for maintenance.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2005, the City had \$8,756,260 invested in a variety of capital assets including land, buildings, and other equipment. (See table 4 below)

Table 4
Capital Assets at Year end
(Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
Land	\$-	\$-	\$12,275	\$12,275	\$12,275	\$12,275
Construction in progress	453,619	43,945	52,211	-	505,830	43,945
Buildings and improvements	272,018	37,500	-	-	272,018	-
Equipment and furnishings	1,025,120	967,049	-	-	1,025,120	37,500
Infrastructure	415,974	140,829	-	-	415,974	967,049
Sewer plant and equipment	-	-	3,046,222	3,033,479	3,046,222	140,829
Water plant and equipment	-	-	2,655,671	2,651,708	2,655,671	3,033,479
Marina and Harbor Master Building	-	-	823,150	873,899	823,150	2,651,708
	-	-	-	-	-	873,899
Total	<u>\$2,166,731</u>	<u>\$1,189,323</u>	<u>\$6,589,529</u>	<u>\$6,571,361</u>	<u>\$8,756,260</u>	<u>\$7,760,684</u>

In the 2005 Fiscal Year the City completed the reconstruction of Varnum, Birch, and Ely Streets, this project included the replacement of water and sewer mains and services, curbing and street resurfacing. The City also started the reconstruction project at St. Martin's Hill and purchased a police vehicle, snow blower, loader, and Department of Public Works facility.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

In Fiscal Year 2006 the City will complete the reconstruction of St. Martin's Hill and renovation of the new Department of Public Works facility.

Debt

At year-end, the City had \$2,061,680 in bonds and notes outstanding as depicted in Table 5 below.

Table 5
Outstanding Debt at Year End

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
General obligation bonds	\$651,300	\$625,000	\$-	\$-	\$651,300	\$625,000
Revenue bonds	-	-	815,000	875,000	815,000	875,000
Contracts and Notes Payable	595,380	114,584	-	-	595,380	114,584
Totals	<u>\$1,246,680</u>	<u>\$739,584</u>	<u>\$815,000</u>	<u>\$875,000</u>	<u>\$2,061,680</u>	<u>\$1,614,584</u>

There were two new additions to debt for this year and further details on long-term debt can be found in Note I.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The City's elected and appointed officials consider many factors when setting the fiscal year 2006 budget. One of those factors is the economy.

The City has looked at several means to raise revenues in the face of continuing declines in state revenue sharing. A cursory look was even given to a City Income Tax and a City Tourist Tax only to find them unpractical or contrary to present state permissive law. The City is now on a course to work on actually lowering the tax rate and stabilizing the water and sewer rates. Through the use of long term, low interest loans and grants, the City plans to improve infrastructure and facilities with the intent of creating a desirable location to live and work. Updating will also have a large and positive impact on the historically high repair costs that the City has experienced in recent years. Operating costs are being reviewed for savings. Health coverage and gas/utility expenditures are monitored and efficiency procedures are being investigated. Six full time staff positions have been eliminated. Geographically the City has room to expand and the water/sewer utility can accommodate growth. The City will continue to work with State, Federal, Corporate and non-profit agencies to partner in the funding mechanisms needed.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Manager at City of Munising, 101 W. Munising Avenue, Munising, Michigan, 49862.

City of Munising, Michigan

STATEMENT OF NET ASSETS

June 30, 2005

	Primary Government			
	Governmental Activities	Business Type Activities	Total	Component Units
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 768,622	\$ 334,966	\$ 1,103,588	\$ 510,280
Cash and cash equivalents-reserved	341,481	-	341,481	4,292
Restricted assets	-	675,722	675,722	-
Receivables (net)	294,517	189,043	483,560	59,067
Investments	-	-	-	177,597
Primary government internal balances	23,785	(23,785)	-	-
Other current assets	-	-	-	2,119
TOTAL CURRENT ASSETS	1,428,405	1,175,946	2,604,351	753,355
Noncurrent assets:				
Long-term receivables	56,260	-	56,260	-
Unamortized bond issue costs	-	10,416	10,416	-
Capital assets:				
Land and construction in progress	453,619	12,275	465,894	-
Other capital assets	3,442,533	11,517,486	14,960,019	4,178,931
Accumulated depreciation	(1,729,421)	(4,940,232)	(6,669,653)	(2,269,861)
Total Capital Assets	2,166,731	6,589,529	8,756,260	1,909,070
TOTAL NONCURRENT ASSETS	2,222,991	6,599,945	8,822,936	1,909,070
TOTAL ASSETS	3,651,396	7,775,891	11,427,287	2,662,425
LIABILITIES:				
Current Liabilities:				
Accounts payable	246,266	-	246,266	120,109
Accrued liabilities	25,662	5,334	30,996	54,152
Accrued sick and vacation leave	18,230	12,019	30,249	-
Current portion of bonds payable	70,000	65,000	135,000	100,000
Current potion of notes payable	63,387	-	63,387	-
Other current liabilities	7,155	-	7,155	-
TOTAL CURRENT LIABILITIES	430,700	82,353	513,053	274,261
Noncurrent Liabilities:				
Compensated absences	79,472	-	79,472	-
Bonds payable	581,300	750,000	1,331,300	100,000
Long-term contracts and notes payable	531,993	-	531,993	-
Other	-	-	-	40,002
TOTAL NONCURRENT LIABILITIES	1,192,765	750,000	1,942,765	140,002
TOTAL LIABILITIES	1,623,465	832,353	2,455,818	414,263
NET ASSETS				
Invested in capital assets net of related debt	1,546,431	5,774,529	7,320,960	1,909,070
Restricted for:				
Debt Service	-	76,973	76,973	-
Other activities	245,852	-	245,852	-
Unrestricted	235,648	1,092,036	1,327,684	339,092
TOTAL NET ASSETS	\$ 2,027,931	\$ 6,943,538	\$ 8,971,469	\$ 2,248,162

The accompanying notes are an integral part of these financial statements.

City of Munising, Michigan

STATEMENT OF ACTIVITIES

For the Fiscal Year Ended June 30, 2005

Function / Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business Type Activities	Component Units
Primary Government:							
Governmental Activities:							
Legislative	\$ 11,578	\$ -	\$ -	\$ -	\$ (11,578)	\$ -	\$ -
General government	623,401	51,198	171,109	-	(401,094)	-	(401,094)
Public safety	467,883	954	34,753	-	(432,176)	-	(432,176)
Public works	830,979	31,675	401,614	-	(397,690)	-	(397,690)
Parks and recreation	117,965	127,616	10,000	-	19,651	-	19,651
Interest on long-term debt	38,909	-	-	-	(38,909)	-	(38,909)
Total Governmental Activities	2,090,715	211,443	617,476	-	(1,261,796)	-	(1,261,796)
Business Type Activities:							
Sewer	681,589	745,669	-	-	-	64,080	64,080
Water	436,921	484,821	-	-	-	47,900	47,900
Marina	111,163	92,108	-	-	-	(19,055)	(19,055)
Total Business Type Activities	1,229,673	1,322,598	-	-	-	92,925	92,925
TOTAL PRIMARY GOVERNMENT	\$ 3,320,388	\$ 1,534,041	\$ 617,476	\$ -	(1,261,796)	92,925	(1,168,871)
Component Units:							
Downtown Development Authority	285,605	-	-	-	-	-	(285,605)
Landfill Authority	35,658	33,292	-	-	-	-	(2,366)
Housing Commission	641,012	211,646	248,689	-	-	-	(180,677)
Alger Parks & Recreation Department	196,924	45,669	106,508	-	-	-	(46,727)
TOTAL COMPONENT UNITS	\$ 1,161,199	\$ 290,627	\$ 355,197	\$ -	-	-	(515,375)
General Revenues:							
Taxes:							
Property taxes					1,142,829	-	1,142,829
Unrestricted intergovernmental sources					306,168	-	306,168
Interest and investment earnings					23,035	21,579	44,614
Miscellaneous					17,615	-	17,615
Transfers					-	-	-
TOTAL GENERAL REVENUES & TRANSFERS					1,489,647	21,579	1,511,226
CHANGE IN NET ASSETS					227,851	114,504	(185,396)
Net assets, beginning of year					1,800,080	6,829,034	8,629,114
NET ASSETS, END OF YEAR					\$ 2,027,931	\$ 6,943,538	\$ 8,971,469
The accompanying notes are an integral part of these financial statements.							

City of Munising, Michigan

GOVERNMENTAL FUNDS

BALANCE SHEET

June 30, 2005

	General Fund	Major Street Fund	Local Street Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 4,529	\$ 25,400	\$ -	\$ 384,511	\$ 414,440
Cash and cash equivalents-reserved	270,181	-	-	71,300	341,481
Accounts receivable, net	16,980	-	-	-	16,980
Other receivables	6,867	-	-	-	6,867
Due from other governments	92,169	14,766	3,981	-	110,916
Due from other funds	165,524	-	-	-	165,524
Advances to other funds	20,030	-	-	-	20,030
Other assets	-	-	-	-	-
TOTAL ASSETS	\$ 576,280	\$ 40,166	\$ 3,981	\$ 455,811	\$ 1,076,238
LIABILITIES AND FUND BALANCE					
LIABILITIES:					
Cash overdraft	\$ -	\$ -	\$ 2,261	\$ -	\$ 2,261
Accounts payable	7,693	1,720	1,720	233,101	244,234
Accrued liabilities	9,792	-	-	-	9,792
Accrued sick and vacation leave	9,323	-	-	-	9,323
Due to other funds	4,047	-	-	-	4,047
Due to others	7,155	-	-	-	7,155
TOTAL LIABILITIES	38,010	1,720	3,981	233,101	276,812
FUND BALANCE:					
Reserved for:					
Capital outlay	183,232	-	-	-	183,232
Other	25,800	-	-	36,820	62,620
Unreserved, reported in:					
General Fund	329,238	-	-	-	329,238
Capital Projects Funds	-	-	-	185,890	185,890
Special Revenue Funds	-	38,446	-	-	38,446
TOTAL FUND BALANCE	538,270	38,446	-	222,710	799,426
TOTAL LIABILITIES AND FUND BALANCE	\$ 576,280	\$ 40,166	\$ 3,981	\$ 455,811	\$ 1,076,238

The accompanying notes are an integral part of these financial statements.

City of Munising, Michigan

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS**

June 30, 2005

Total Fund Balances for Governmental Funds	\$	799,426
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*Amounts reported for governmental activities in the statement
of net assets are different because:*

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds (includes capital assets of internal service funds).		2,166,731
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Internal service funds are used by management to charge the costs of certain activities, such as the purchase and maintenance of equipment and vehicles and the operation of the Municipal Building, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets, net of capital assets.

Current assets	\$ 356,443	
Long-term receivables	56,260	
Current liabilities (other than debt)	<u>(8,907)</u>	
		403,796

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Current portion of bonds payable	\$ 70,000	
Current portion of notes and contracts payable	63,387	
Accrued interest on bonds	15,870	
Compensated absences	79,472	
Bonds payable	581,300	
Long-term contracts and notes payable	<u>531,993</u>	
		(1,342,022)

NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u>2,027,931</u>
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The accompanying notes are an integral part of these financial statements.

City of Munising, Michigan

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

For the Fiscal Year Ended June 30, 2005

	General Fund	Major Street Fund	Local Street Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:					
Property taxes	\$ 1,142,829	\$ -	\$ -	\$ -	\$ 1,142,829
Licenses and permits	30,343	-	-	-	30,343
Intergovernmental revenues	339,691	287,959	113,655	1,230	742,535
Charges for services	161,991	-	-	-	161,991
Fines and forfeits	954	-	-	-	954
Interest income	19,691	1,838	548	958	23,035
Other revenues	40,770	-	-	-	40,770
TOTAL REVENUES	1,736,269	289,797	114,203	2,188	2,142,457
EXPENDITURES:					
Current operations:					
Legislative	11,578	-	-	-	11,578
General government	623,946	-	-	-	623,946
Public safety	466,816	-	-	2,129	468,945
Public works	404,052	226,568	210,843	680,749	1,522,212
Parks and recreation	90,666	-	-	-	90,666
Debt service					
Principal retirement	25,000	34,204	-	-	59,204
Interest and fiscal charges	26,738	9,266	-	-	36,004
TOTAL EXPENDITURES	1,648,796	270,038	210,843	682,878	2,812,555
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	87,473	19,759	(96,640)	(680,690)	(670,098)
OTHER FINANCING SOURCES (USES):					
Proceeds from borrowing	-	-	-	571,300	571,300
Transfers in	216,067	-	96,640	295,632	608,339
Transfers out	(381,893)	(38,308)	-	-	(420,201)
TOTAL OTHER FINANCING SOURCES (USES)	(165,826)	(38,308)	96,640	866,932	759,438
CHANGE IN FUND BALANCE	(78,353)	(18,549)	-	186,242	89,340
Fund balance, beginning of year	616,623	56,995	-	36,468	710,086
FUND BALANCE, END OF YEAR	\$ 538,270	\$ 38,446	\$ -	\$ 222,710	\$ 799,426

The accompanying notes are an integral part of these financial statements.

City of Munising, Michigan

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

For the Fiscal Year Ended June 30, 2005

Net Change in Fund Balances - Total Governmental Funds	\$ 89,340
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*Amounts reported for governmental activities in the statement
of activities are different because:*

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period. Includes Internal Service Funds depreciation expense of \$164,806.

Capital outlays	\$ 680,313	
Depreciation expense	<u>(173,330)</u>	
		506,983

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	59,204
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Proceeds from debt issues are an other financing source in the funds, but a debt issue increases long-term liabilities in the statement of net assets.	(571,300)
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In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(2,905)
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Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	2,601
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Internal service funds are used by management to charge costs of certain activities, such as the purchase and maintenance of equipment and vehicles and the operation of the Municipal Building, to individual funds. The net revenue of the Internal Service Funds is reported with governmental activities net of depreciation expense.

Change in net assets	(20,878)	
Depreciation expense	<u>164,806</u>	
		143,928

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 227,851</u>
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The accompanying notes are an integral part of these financial statements.

City of Munising, Michigan

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

June 30, 2005

	Business- Type Activities: Enterprise Funds				Governmental Activities
	Sewer Fund	Water Fund	Marina Fund	Total	Internal Service Funds
ASSETS					
Current Assets:					
Cash and cash equivalents	\$ -	\$ 250,882	\$ 157,715	\$ 408,597	\$ 356,443
Accounts receivable	111,522	84,591	-	196,113	-
Allowance for uncollectible accounts	(5,383)	(2,391)	-	(7,774)	-
Due from other governmental units	704	-	-	704	-
Due from other funds	-	38,052	-	38,052	-
Unamortized bond issuance costs	-	10,416	-	10,416	-
TOTAL CURRENT ASSETS	106,843	381,550	157,715	646,108	356,443
Restricted Assets:					
Construction	490,803	93,845	-	584,648	-
Debt retirement	-	71,853	-	71,853	-
Water System Reserve	-	5,120	-	5,120	-
Funded depreciation	-	-	14,101	14,101	-
TOTAL RESTRICTED ASSETS	490,803	170,818	14,101	675,722	-
Noncurrent Assets:					
Long-term receivables	-	-	-	-	56,260
Land	-	12,275	-	12,275	-
Construction in progress	30,732	21,479	-	52,211	53,225
Capital assets	5,253,018	5,081,968	1,130,289	11,465,275	2,501,398
Accumulated depreciation	(2,206,796)	(2,426,297)	(307,139)	(4,940,232)	(1,238,010)
TOTAL NONCURRENT ASSETS	3,076,954	2,689,425	823,150	6,589,529	1,372,873
TOTAL ASSETS	3,674,600	3,241,793	994,966	7,911,359	1,729,316
LIABILITIES					
Current Liabilities:					
Cash overdraft	73,631	-	-	73,631	-
Accrued salaries	3,104	2,230	-	5,334	-
Accrued sick and vacation leave	6,902	5,117	-	12,019	8,907
Due to other funds	36,037	3,570	2,200	41,807	-
Current portion of long-term debt	30,000	35,000	-	65,000	5,000
TOTAL CURRENT LIABILITIES	149,674	45,917	2,200	197,791	13,907
Noncurrent Liabilities:					
Advances from other funds	-	20,030	-	20,030	-
Bonds payable	205,000	545,000	-	750,000	-
Notes payable	-	-	-	-	44,000
TOTAL NONCURRENT LIABILITIES	205,000	565,030	-	770,030	44,000
TOTAL LIABILITIES	354,674	610,947	2,200	967,821	57,907
NET ASSETS					
Invested in capital assets net of related debt	2,841,954	2,109,425	823,150	5,774,529	1,267,613
Net Assets:					
Restricted for debt service	-	76,973	-	76,973	-
Unrestricted	477,972	444,448	169,616	1,092,036	403,796
TOTAL NET ASSETS	\$ 3,319,926	\$ 2,630,846	\$ 992,766	\$ 6,943,538	\$ 1,671,409

The accompanying notes are an integral part of these financial statements.

City of Munising, Michigan

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Fiscal Year Ended June 30, 2005

	Business- Type Activities: Enterprise Funds				Governmental Activities Internal Service Funds
	Sewer Fund	Water Fund	Marina Fund	Total	
OPERATING REVENUES:					
Intergovernmental revenue	\$ -	\$ -	\$ -	\$ -	\$ -
Charges for services	695,361	484,432	85,067	1,264,860	-
Rents and royalties	-	-	-	-	456,202
Other operating revenue	50,308	389	7,041	57,738	-
TOTAL OPERATING REVENUES	745,669	484,821	92,108	1,322,598	456,202
OPERATING EXPENSES:					
Transmission and distribution	-	284,959	-	284,959	-
Sewer maintenance/treatment	503,232	-	-	503,232	-
Personnel services	-	-	-	-	62,992
Services and supplies	-	-	-	-	125,969
Administrative and general	23,365	22,800	59,013	105,178	65,661
Repairs and maintenance	-	-	1,401	1,401	30,894
Depreciation	139,495	100,197	50,749	290,441	164,806
TOTAL OPERATING EXPENSES	666,092	407,956	111,163	1,185,211	450,322
OPERATING INCOME (LOSS)	79,577	76,865	(19,055)	137,387	5,880
NONOPERATING REVENUES (EXPENSES):					
Interest income	4,421	11,900	5,258	21,579	15,646
Interest expense	(15,497)	(28,965)	-	(44,462)	(2,446)
TOTAL NONOPERATING REVENUES (EXPENSES)	(11,076)	(17,065)	5,258	(22,883)	13,200
INCOME (LOSS) BEFORE TRANSFERS	68,501	59,800	(13,797)	114,504	19,080
Transfers in	-	-	-	-	-
Transfers (out)	-	-	-	-	(39,958)
CHANGE IN NET ASSETS	68,501	59,800	(13,797)	114,504	(20,878)
Net assets, beginning of year	3,251,425	2,571,046	1,006,563	6,829,034	1,692,287
NET ASSETS, END OF YEAR	\$ 3,319,926	\$ 2,630,846	\$ 992,766	\$ 6,943,538	\$ 1,671,409

The accompanying notes are an integral part of these financial statements.

City of Munising, Michigan

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

For the Fiscal Year Ended June 30, 2005

	Business-Type Activities: Enterprise Funds				Governmental Activities
	Sewer Fund	Water Fund	Marina Fund	Total	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash received from fees and charges for services	\$ 716,150	\$ 485,967	\$ 85,067	\$ 1,287,184	\$ 456,202
Other operating revenues	50,308	389	7,041	57,738	-
Cash payments to employees for services	(184,796)	(116,639)	(17,552)	(318,987)	(31,465)
Cash payments for payroll taxes	(14,212)	(9,023)	(1,343)	(24,578)	(2,407)
Cash payments to suppliers for goods and services	(326,606)	(180,794)	(41,519)	(548,919)	(251,644)
NET CASH PROVIDED BY OPERATING ACTIVITIES	240,844	179,900	31,694	452,438	170,686
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
(Decrease) in advances from other funds	-	-	-	-	-
(Decrease) in due to other funds	-	-	-	-	-
Payments from (to) other funds	-	-	-	-	(39,958)
(Increase) decrease in due from other local units	-	-	-	-	-
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	-	-	-	-	(39,958)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Acquisition and construction of capital assets	(182,970)	(124,895)	-	(307,865)	(470,425)
Payments received on notes receivable	-	-	-	-	-
Principal payments on revenue bonds and notes payable	(30,000)	(30,000)	-	(60,000)	(5,000)
Interest paid on revenue bonds and notes payable	(15,497)	(28,965)	-	(44,462)	(2,446)
NET CASH (USED) FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(228,467)	(183,860)	-	(412,327)	(477,871)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Interest income	4,421	11,900	5,258	21,579	15,646
(Increase) decrease in restricted assets:					
Construction	(24,541)	3,591	-	(20,950)	-
Funded Depreciation	-	-	-	-	-
NET CASH PROVIDED BY INVESTING ACTIVITIES	(20,120)	15,491	5,258	629	15,646
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(7,743)	11,531	36,952	40,740	(331,497)
Cash and cash equivalents, beginning of year	(65,888)	239,351	120,763	294,226	687,940
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ (73,631)	\$ 250,882	\$ 157,715	\$ 334,966	\$ 356,443
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:					
Operating income (loss)	\$ 79,577	\$ 76,865	\$ (19,055)	\$ 137,387	\$ 5,880
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	139,495	100,197	50,749	290,441	164,806
Changes in assets and liabilities:					
(Increase) decrease in accounts receivable - net	20,789	1,535	-	22,324	-
Increase (decrease) in accounts payable	-	-	-	-	-
Increase (decrease) in accrued salaries	894	710	-	1,604	-
Increase (decrease) in accrued sick and vacation	89	593	-	682	-
NET ADJUSTMENTS	161,267	103,035	50,749	315,051	164,806
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 240,844	\$ 179,900	\$ 31,694	\$ 452,438	\$ 170,686

The accompanying notes are an integral part of these financial statements.

City of Munising, Michigan

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2005

	<u>Private-Purpose Trust Fund Substandard Housing</u>	<u>Agency Funds</u>
ASSETS		
Cash and equivalents	\$ 54,746	\$ 6,525
Due from others	-	88,399
Due from other funds	<u>2,032</u>	<u>-</u>
TOTAL ASSETS	<u>56,778</u>	<u><u>\$ 94,924</u></u>
LIABILITIES		
Due to others	-	\$ 6,525
Due to other funds	<u>-</u>	<u>88,399</u>
TOTAL LIABILITIES	<u>-</u>	<u><u>\$ 94,924</u></u>
NET ASSETS		
Held in trust for individuals, organizations, and other governments	<u>56,778</u>	
TOTAL NET ASSETS	<u><u>\$ 56,778</u></u>	

The accompanying notes are an integral part of these financial statements.

City of Munising, Michigan

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

For the Fiscal Year Ended June 30, 2005

	<u>Private-Purpose Trust Fund Substandard Housing</u>
ADDITIONS:	
Contributions:	
Gifts, bequests and endowments	<u>\$ -</u>
Total Contributions	<u>-</u>
Investment Income:	
Interest and dividends	<u>1,037</u>
Net Investment Income (Loss)	<u>1,037</u>
TOTAL ADDITIONS (DEDUCTIONS)	<u>1,037</u>
DEDUCTIONS:	
Payments in accordance with trust agreements	<u>10</u>
TOTAL DEDUCTIONS	<u>10</u>
CHANGE IN NET ASSETS	<u>1,027</u>
Net assets, beginning of year	<u>55,751</u>
NET ASSETS, END OF YEAR	<u><u>\$ 56,778</u></u>

The accompanying notes are an integral part of these financial statements.

City of Munising, Michigan

COMPONENT UNITS

COMBINING STATEMENT OF NET ASSETS

June 30, 2005

	Downtown Development Authority	Landfill Authority	Housing Commission	Alger Parks & Recreation Department	Total
ASSETS					
Current Assets:					
Cash and cash equivalents	\$ 163,955	\$ 4,998	\$ 267,685	\$ 73,642	\$ 510,280
Cash and cash equivalents-reserved	3,198	1,094	-	-	4,292
Receivables, net	28,592	30,207	268	-	59,067
Investments	-	-	177,597	-	177,597
Other assets	-	-	2,119	-	2,119
TOTAL CURRENT ASSETS	195,745	36,299	447,669	73,642	753,355
Noncurrent Assets:					
Capital assets	293,359	-	3,885,572	-	4,178,931
Accumulated depreciation	(13,710)	-	(2,256,151)	-	(2,269,861)
TOTAL NONCURRENT ASSETS	279,649	-	1,629,421	-	1,909,070
TOTAL ASSETS	475,394	36,299	2,077,090	73,642	2,662,425
LIABILITIES					
Current Liabilities:					
Accounts payable	91,921	10,429	17,759	-	120,109
Accrued liabilities	-	-	52,777	1,375	54,152
Current portion of bonds payable	100,000	-	-	-	100,000
TOTAL CURRENT LIABILITIES	191,921	10,429	70,536	1,375	274,261
Noncurrent Liabilities:					
Bonds payable	100,000	-	-	-	100,000
Other liabilities	-	-	40,002	-	40,002
TOTAL NONCURRENT LIABILITIES	100,000	-	40,002	-	140,002
TOTAL LIABILITIES	291,921	10,429	110,538	1,375	414,263
NET ASSETS					
Invested in capital assets net of related debt	279,649	-	1,629,421	-	1,909,070
Unrestricted	(96,176)	25,870	337,131	72,267	339,092
TOTAL NET ASSETS	\$ 183,473	\$ 25,870	\$ 1,966,552	\$ 72,267	\$ 2,248,162

The accompanying notes are an integral part of these financial statements.

City of Munising, Michigan

COMPONENT UNITS

COMBINING STATEMENT OF ACTIVITIES

For the Fiscal Year Ended June 30, 2005

Function / Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets				
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Downtown Development Authority	Landfill Authority	Housing Commission	Alger Parks & Recreation Department	Total
Downtown Development Authority Operations	\$ 285,605	\$ -	\$ -	\$ -	\$ (285,605)	\$ -	\$ -	\$ -	(285,605)
Landfill Authority Operations	35,658	33,292	-	-	-	(2,366)	-	-	(2,366)
Housing Commission Operations	641,012	211,646	248,689	-	-	-	(180,677)	-	(180,677)
Alger Parks and Recreation Department Operations	198,924	45,689	106,508	-	-	-	-	(46,727)	(46,727)
TOTAL COMPONENT UNITS	\$ 1,161,199	\$ 290,627	\$ 355,197	\$ -	(285,605)	(2,366)	(180,677)	(46,727)	(515,375)
General Revenues:									
Property taxes					295,535	-	-	-	295,535
Interest and investment earnings					6,345	343	8,097	4,119	18,904
Miscellaneous					9,688	-	5,852	-	15,540
TOTAL GENERAL REVENUES					311,568	343	13,949	4,119	329,979
CHANGE IN NET ASSETS									
					25,963	(2,023)	(166,728)	(42,608)	(185,396)
Net assets, beginning of year					157,510	27,893	2,133,280	114,875	2,433,558
					\$ 183,473	\$ 25,870	\$ 1,966,552	\$ 72,267	\$ 2,248,162

The accompanying notes are an integral part of these financial statements.

City of Munising, Michigan

Notes to Financial Statements

June 30, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the City of Munising conform to generally accepted accounting principles applicable to local governmental units as prescribed by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants. The following is a summary of the more significant policies.

Description

The City was chartered in 1915 under Public Act 279 of 1909, as amended, as a home rule city and is located in Alger County, Michigan. The City operates under a Commission (5 member) - Manager form of government. As required by generally accepted accounting principles, these financial statements present the City of Munising (the primary government) and its component units. The component units discussed in Note B are included in the City's reporting entity because of the significance of its operational and financial relationships with the City.

BASIS OF PRESENTATION

Government-Wide Financial Statements

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The City's police and fire protection, public works, culture and recreation and general administrative services are classified as governmental activities. The City's water, sewer and marina services are classified as business-type activities.

In the government-wide Statement of Net Assets, both the governmental and business-type activities columns are presented on a consolidated basis by column and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The City first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the City's functions and business-type activities. The functions are also supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.) The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants. The net costs (by function or business-type activity) are normally covered by general revenue.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

The government-wide focus is more on the sustainability of the City as an entity and the change in the City's net assets resulting from the current year's activities. For the most part, the effect of interfund activities has been removed from these statements.

Fund Financial Statements

The financial transactions of the City are reported in individual funds in the fund financial statements. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate. The various funds are reported by generic classification within the financial statements. The City uses the following fund types:

Governmental Funds:

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the City:

- *General Fund* - The General Fund is the general operating fund and, accordingly, it is used to account for all financial resources except those required to be accounted for in another fund.
- *Special Revenue Funds* - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes.
- *Capital Projects Funds* - Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).
- *Debt Service Funds* – Debt Service Funds are used to account for the payment of interest and principal on long-term debt obligations.
- *Permanent Funds* – Permanent Funds are used to account for assets held by the City pursuant to a trust agreement. The principal portion of this fund type must remain intact, but the earnings may be used to achieve the objectives of the fund.

Proprietary Funds

The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The following is a description of the proprietary funds of the City:

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

- *Enterprise Funds* - Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.
- *Internal Service Funds* - Internal Service funds are used to account for the financing of goods or services provided by one department or agency of a government to other departments or agencies on a cost-reimbursement basis.

Fiduciary Funds

Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support City programs. The reporting focus is on net assets and changes in net assets and are reported using accounting principles similar to proprietary funds.

Major Funds

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. Nonmajor funds by category are summarized into a single column. GASB Statement No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds.

The City reports the following major governmental funds:

- The **General Fund** is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The **Major Street Fund** accounts for the receipt of allocated state shared gas and weight taxes. The expenditure of these funds is restricted to Federal and State trunklines and certain "mile" roads designated as major under contractual agreement with the State of Michigan.
- The **Local Street Fund** accounts for the allocated state shared gas and weight taxes for remaining City roads.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

The City reports the following major proprietary funds:

- The **Sewer Fund** accounts for the activities related to sanitary sewer operation and booster stations and billing for services.
- The **Water Fund** accounts for the activities related to water treatment and distribution and billing for services.
- The **Marina Fund** accounts for the management of the City's marina including billing, maintenance and construction.

The City's internal service funds are presented in the proprietary funds financial statements. Because the principal users of the internal services are the City's governmental activities, the financial statement of the internal service fund is consolidated into the governmental column when presented in the government-wide financial statements. To the extent possible, the cost of these services is reported in the appropriate functional activity (general government, public works, etc.)

The City's fiduciary funds are presented in the fiduciary fund financial statements by type (private purpose and agency). Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities or obligations of the City, these funds are not incorporated into the government-wide statements.

BASIS OF ACCOUNTING

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

Accrual

Both governmental and business-type activities in the government-wide financial statements and the proprietary and fiduciary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

All proprietary funds and private-purpose trust funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred. Unbilled water and sewer services are accrued as revenue in the Water and Sewer Funds based upon estimated consumption at year-end.

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when they are both measurable and available. "Available" means collectible within the current period or within 60 days of the end of the current fiscal period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. However, debt service expenditures, compensated absences, and claims and judgments are recorded only when payment is due.

FINANCIAL STATEMENT AMOUNTS

Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. On the second Monday in April, the City Manager submits to the City Commission a proposed operating budget for the ensuing fiscal year commencing July 1 in accordance with the City Charter. The operating budget includes proposed expenditures and the means of financing them.
2. Prior to its adoption, a public hearing is conducted at City Hall to obtain taxpayer comments.
3. Not later than the first Monday in May, the budget is adopted by the City Commission in accordance with the provisions of the City Charter.
4. The City Commission adopts the budget by functional categories in the general fund and by total fund level for special revenue funds. Any transfers of appropriations between functions must be approved by the City Commission. All unencumbered and unexpended appropriations lapse at year end.
5. Formal budgetary integration is employed as a management control device for the general fund and all special revenue funds. The budgets for the capital projects and enterprise funds are informational summaries only and are not covered under the City's General Appropriations Act or the State's Public Act 621.
6. The City Commission has the authority to amend the budget when it becomes apparent that deviations in the original budget will occur and the amount of the deviation can be determined. Once originally adopted, the budget was formally amended during the fiscal year.
7. The legally adopted budgets and informational budget summaries for the funds are adopted on a basis consistent with generally accepted accounting principles (GAAP) as applicable to each funds method of accounting.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Cash Equivalents

For purposes of the statement of cash flows, the City considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Inventory

Inventory costs are recorded as expenditures when incurred.

Capital Assets

Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their fair value on the date donated. Other costs incurred for repairs and maintenance are expenses as incurred.

Depreciation on all exhaustible capital assets is charged as an expense against their operations in government-wide statements and proprietary financial statements. Accumulated depreciation is reported on government-wide and proprietary statement of net assets. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

	Depreciation Life – Years
Buildings and improvements	40 – 50
Land improvements	20 – 30
Plants, hydrants and tank	50 – 60
Water, sewer mains and meters	10 – 50
Equipment and Vehicles	5 – 15
Infrastructure	20 – 50

GASB No. 34 requires the City to report and depreciate new infrastructure assets placed in service after July 1, 2003. Infrastructure assets include roads, bridges, traffic signals, etc. Neither their historical cost nor related depreciation has historically been reported in the financial statements. The retroactive reporting of infrastructure is optional for the City under GASB No. 34 and the City has elected not to retroactively report infrastructure assets prior to July 1, 2003.

Long-Term Liabilities

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities and business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using straight line amortization. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources and bond discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt received, are reported as debt service.

Property Taxes

Property taxes attach as an enforceable lien on property as of July 1. Taxes are levied not later than July 1 and are payable by August 20 without penalty.

The City bills and collects its own property taxes and also the taxes for the local school district, the intermediate school district, and the county. Collections of local school taxes, intermediate school district taxes, and county taxes and remittance of them are accounted for in the Trust and Agency Fund. City property tax revenues are recognized when levied to the extent that they result in current receivables.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the City of Munising because it is at present considered not necessary to assure effective budgetary control or to facilitate effective cash planning and control.

Interfund Activity

During the course of its operations, the City has numerous transactions between funds to finance operations, to provide services, construct assets and service debt. To the extent that certain transactions between funds had not been paid or received as of fiscal year end, balances of interfund accounts receivable or payable have been recorded and are subject to elimination upon consolidation.

Noncurrent portions of long-term interfund loans receivable are equally offset by a fund balance reserve account which indicates that they do not constitute available spendable resources even though they are a component of net current assets.

Compensated Absences

The City accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned (or estimated to be earned) by the employee. The noncurrent portion (the amount estimated to be used in subsequent fiscal years) for governmental funds is maintained separately and represents a reconciling item between the fund and government-wide presentations.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and affect the disclosure of contingent assets and liabilities at the date of financial statements. These estimates and assumptions also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B – INDIVIDUAL COMPONENT UNIT DISCLOSURES:

Discretely Presented Component Units

The component unit column in the Statement of Net Assets includes the financial data for the Downtown Development Authority/TIF District, the Landfill Authority, the Munising Housing Commission and the Alger Parks and Recreation Department. They are reported in a separate column to emphasize that they are legally separate from the City. The purpose of the Downtown Development Authority/TIF entity is to foster development of the Downtown Business District. The purpose of the Landfill Authority is to control revenues and incur expenditures in connection with the Munising Landfill Closure. The purpose of the Munising Housing Commission is to provide low income housing programs to City residents. The purpose of the Alger Parks and Recreation Department is to provide a full-time, year-round, broad based recreation program to the residents of the City and surrounding townships.

The presentation of the financial statements of the Downtown Development Authority/TIF district, the Landfill Authority, and the Alger Parks and Recreation Department are complete, and there is no separately issued report for these entities.

A complete financial statement for the Munising Housing Commission can be obtained directly from the administrative office at 200 City Park Drive OFC, Munising, Michigan, 49862.

In accordance with the provisions of GASB Statement 14, certain other governmental organizations are not considered to be part of the reporting entity for financial reporting purposes. The criteria established for determining the various governmental organizations to be included in the reporting entity's financial statements include oversight responsibility, scope of public service, and special financing relationships. On this basis, the financial statements of Munising Public Schools are not included in the financial statements of the City.

NOTE C – DEPOSITS AND INVESTMENTS:

The composition of cash and equivalents reported on the statement of net assets are as follows:

	Primary Government	Component Units	Fiduciary Funds	Reporting Entity
Cash and equivalents	\$1,103,588	\$510,280	\$61,271	\$1,675,139
Cash – reserved	341,481	4,292	-	345,773
Restricted assets	675,722	-	-	675,722
TOTALS	<u>\$2,120,791</u>	<u>\$514,572</u>	<u>\$61,271</u>	<u>\$2,696,634</u>
A summary of deposits by type are:				
Cash in demand accounts	\$91,973	\$59,034	\$-	\$151,007
Cash in savings accounts	2,028,668	455,438	61,271	2,545,377
Petty cash	150	100	-	250
TOTAL DEPOSITS	<u>\$2,120,791</u>	<u>\$514,572</u>	<u>\$61,271</u>	<u>\$2,696,634</u>

NOTE C – DEPOSITS AND INVESTMENTS (Continued):

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State law does not require and the City does not have a deposit policy for custodial credit risk. The carrying amounts of the City's deposits with financial institutions was \$2,696,634 and the bank balance was \$2,812,047. Of the bank balance, \$362,640 or approximately 13% was covered by federal depository insurance according to FDIC regulations.

Investments

As of June 30, 2005, the City had no investments.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the City's investments. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Michigan statutes (Act 196, PA 1997) authorize the City to invest in bonds, other direct obligations and repurchase agreements of the United States, certificates of deposits, savings accounts, deposit accounts or receipts of a bank which is a member of the FDIC and authorized to operate in this state, commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures within 270 days from date of purchase, bankers' acceptances of the United States banks, obligations of the State of Michigan and its political subdivisions, external investment pools, and certain mutual funds. Michigan law prohibits security in the form of collateral, surety bond, or another form for the deposit of public money.

The City has no investment policy that would further limit its investment choices. The City's investments are in accordance with statutory authority.

NOTE D – RESTRICTED ASSETS:

General Fund

Reserved Cash – The account represents the unspent portion of the 1996 General Obligation Limited Tax Bonds, cash collected from property taxes for street construction, and other miscellaneous reserves. The purpose of the bond issue is to fund the City's portion of the costs for closure and post closure care of the local landfill. The bond reserve balance as of June 30, 2005 is \$79,794.

The street construction reserve balance as of June 30, 2005 is \$183,232 and other miscellaneous reserve balance is \$7,155.

Capital Projects Fund

Reserved Cash – The account represents the unspent portion of the 2005 General Obligation Limited Tax Bonds for Department of Public Works Facility renovation. The reserve balance as of June 30, 2005 is \$71,300.

NOTE D – RESTRICTED ASSETS (Continued):

Sewer Fund

Construction - This account represents the cash collected from utility users to fund the infrastructure repairs on the sewer system as mandated by the Department of Environmental Quality. The June 30, 2005 balance is \$490,803.

Water Fund

Construction - This account represents the cash collected from utility users to fund the infrastructure repairs on the water system. The June 30, 2005 balance is \$93,845.

Under ordinance 1999-01, which authorized the issuance of the Water Supply System Revenue Refunding Bonds, the City is required to maintain the following cash reserves in the Water Fund:

Bond Interest and Redemption Fund - Money in this account is reserved for the current years principal and interest payments on the Water Supply System Revenue bonds. The June 30, 2005 balance is \$71,853.

Water System Reserve - This reserve was established to accumulate money solely for the purpose of making principal and interest payments in the event of default by the City. The June 30, 2005 balance is \$5,120.

Marina Fund

Funded Depreciation - This account was established to reserve cash in an amount equal to the yearly depreciation expense for the purpose of funding future asset purchases. The June 30, 2005 balance is \$14,101.

NOTE E – INTERFUND RECEIVABLES AND PAYABLES:

The amounts of interfund receivables and payables are as follows:

	Receivables		Payable
General Fund	\$165,524	DDA – Component Unit	\$91,921
		Water	3,570
		Tax Collection	67,833
		Marina	2,200
Subtotal	165,524	Subtotal	165,524
Water	38,052	General	2,015
		Sewer	36,037
Subtotal	38,052	Subtotal	38,052
Substandard Housing	2,032	General	2,032
DDA – Component Unit	20,566	Tax Collection	20,566
TOTAL – REPORTING ENTITY	\$226,174	TOTAL - REPORTING ENTITY	\$226,174

All internal balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

NOTE F – ADVANCES TO/FROM OTHER FUNDS:

The following amounts are interfund advances of a long-term nature between funds:

<u>Fund</u>	<u>Advances From</u>	<u>Fund</u>	<u>Advances To</u>
General Fund	<u>\$20,030</u>	Water Fund	<u>\$20,030</u>

NOTE G – CAPITAL ASSETS:

A summary of changes in governmental activities capital assets including internal service funds capital assets is as follows:

	<u>Balance at 07/01/04</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at 6/30/05</u>
Capital assets not being depreciated:				
Construction in progress	\$43,945	\$409,674	\$-	\$453,619
Capital assets being depreciated:				
Land improvements	32,000	-	-	32,000
Buildings and improvements	486,000	238,268	-	724,268
Infrastructure	143,216	279,919	-	423,135
Equipment and vehicles	2,083,915	222,877	43,662	2,263,130
Total Capital Assets	<u>2,789,076</u>	<u>1,150,738</u>	<u>43,662</u>	<u>3,896,152</u>
Less accumulated depreciation:				
Land improvements	32,000	-	-	32,000
Buildings and improvements	448,500	3,750	-	452,250
Infrastructure	2,387	4,774	-	7,161
Equipment and vehicles	1,116,866	164,806	43,662	1,238,010
Total Accumulated Depreciation	<u>1,599,753</u>	<u>173,330</u>	<u>43,662</u>	<u>1,729,421</u>
Capital Assets, net	<u>\$1,189,323</u>	<u>\$977,408</u>	<u>\$-</u>	<u>\$2,166,731</u>

Depreciation expense for the governmental activities was charged to the following functions and activities of the primary government:

Governmental Activities:	
General government	\$8,524
Internal service funds charged to above activities	164,806
Total Depreciation Expense – Governmental Activities	<u>\$173,330</u>

A summary of changes in business-type activities capital assets is as follows:

	<u>Balance at 07/01/04</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at 6/30/05</u>
Capital assets not being depreciated:				
Land	\$12,275	\$-	\$-	\$12,275
Construction in progress	-	52,211	-	52,211
Capital assets being depreciated:				
Sewer plant and equipment	5,100,780	152,238	-	5,253,018
Water plant and equipment	4,978,552	103,416	-	5,081,968
Marina and Harbor Master building	1,130,289	-	-	1,130,289
Total Capital Assets	<u>11,221,896</u>	<u>307,865</u>	<u>-</u>	<u>11,529,761</u>
Less accumulated depreciation:				
Sewer plant and equipment	2,067,301	139,495	-	2,206,796
Water plant and equipment	2,326,844	99,453	-	2,426,297
Marina and Harbor Master building	256,390	50,749	-	307,139
Total Accumulated Depreciation	<u>4,650,535</u>	<u>289,697</u>	<u>-</u>	<u>4,940,232</u>
Capital Assets, net	<u>\$6,571,361</u>	<u>\$18,168</u>	<u>\$-</u>	<u>\$6,589,529</u>

NOTE G – CAPITAL ASSETS (Continued):

Depreciation expense for the business-type activities was charged to the following functions and activities of the primary government:

Business-Type Activities:	
Sewer system	\$139,495
Water system	99,453
Marina	50,749
Total Depreciation Expense – Business-Type Activities	<u>\$289,697</u>

NOTE H – INTERFUND TRANSFERS IN AND TRANSFERS OUT:

The interfund transfers for the year are as follows:

Fund	Transfer In	Fund	Transfer Out
General	\$216,067	Downtown Development Authority	\$171,109
		Motor Pool	39,958
		Alger Parks and Recreation	5,000
Subtotal	<u>216,067</u>	Subtotal	<u>216,067</u>
Local Street	58,332	General	381,893
Alger Parks and Recreation	27,929		
Capital Projects	295,339		
Police Training	293		
Subtotal	<u>381,893</u>	Subtotal	<u>381,893</u>
Local Street	38,308	Major Street	38,308
TOTAL	<u>\$636,268</u>	TOTAL	<u>\$636,268</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE I – LONG-TERM DEBT:

The following is a summary of long-term debt transactions of the primary government and all component units for the year ended June 30, 2005:

Description	Balance July 1	Additions	Reductions	Balance June 30
PRIMARY GOVERNMENT:				
GOVERNMENTAL ACTIVITIES:				
State Infrastructure Bank Note Payable, payable in seven annual installments of \$16,627 and bearing interest of 4.00%	\$60,584	\$-	\$14,204	\$46,380
Transportation Fund Bonds; 1994D issue maturing serially to 2008 in annual amounts of \$5,000 to \$10,000 and bearing interest from 5.35% to 8.00%	25,000	-	5,000	20,000

NOTE I – LONG-TERM DEBT (Continued):

Description	Balance July 1	Additions	Reductions	Balance June 30
Transportation Fund Bonds, 1993C issue maturing serially to 2008 in annual variable amounts and bearing interest from 2.8% to 5.8%	\$100,000	\$-	\$15,000	\$85,000
1996 General Obligation Limited Tax Bonds maturing serially to 2017 in annual amounts of \$25,000 to \$55,000 and bearing interest from 4.95% to 5.75%	500,000	-	25,000	475,000
State Infrastructure Bank Note Payable, payable in ten annual installments of \$58,615 and bearing interest of 3.1%	-	500,000	-	500,000
2005 General Obligation Limited Tax Bonds maturing serially to 2035 in annual amounts of \$15,000 to \$48,350 and bearing interest of 4.25%	-	71,300	-	71,300
1999-2000 Fire truck loan payable bearing interest of 4.75%	54,000	-	5,000	49,000
Subtotal	739,584	571,300	64,204	1,246,680
Accrued Sick & Vacation	82,073	-	2,601	79,472
TOTAL GOVERNMENTAL ACTIVITIES	821,657	571,300	66,805	1,326,152
BUSINESS-TYPE ACTIVITIES:				
1991 Sewage Disposal System Revenue Bonds maturing serially to 2010 in annual amounts of \$10,000 to \$50,000 and bearing interest of 6.125%	265,000	-	30,000	235,000
1999 Water Supply system Revenue Refunding Bonds maturing serially to 2019 in annual amounts of \$25,000 to \$50,000 and bearing interest of 4.81%	610,000	-	30,000	580,000
TOTAL BUSINESS-TYPE ACTIVITIES	875,000	-	60,000	815,000
TOTAL PRIMARY GOVERNMENT	1,696,657	571,300	126,805	2,141,152
DISCRETELY PRESENTED COMPONENT UNITS:				
1993 Downtown Development General Obligation Bonds maturing serially to 2007 in annual amounts of \$10,000 to \$100,000 and bearing interest of 3.25% to 5.75%	300,000	-	100,000	200,000
TOTAL DISCRETELY PRESENTED COMPONENT UNITS	300,000	-	100,000	200,000
TOTAL REPORTING ENTITY	\$1,996,657	\$571,300	\$226,805	\$2,341,152

Debt Service Requirements

The annual requirements to pay principal and interest based on debt outstanding at June 30, 2005 (exclusive of accrued sick and vacation) for the City are as follows:

Fiscal Year	Governmental Activities		Business-Type Activities		Total Primary Government	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$133,387	\$52,969	\$65,000	\$43,685	\$198,387	\$96,654
2007	140,287	47,205	70,000	39,859	210,287	87,064
2008	137,516	41,060	70,000	35,816	207,516	76,876
2009	128,660	34,852	75,000	31,958	203,660	66,810
2010	99,389	29,957	85,000	26,919	184,389	56,876
2011-2015	502,441	88,861	260,000	82,102	762,441	170,963
2016-2020	105,000	6,181	190,000	25,153	295,000	31,334
Totals	\$1,246,680	\$301,085	\$815,000	\$285,492	\$2,061,680	\$586,577

NOTE I – LONG-TERM DEBT (Continued):

Fiscal Year	Discrete Component Unit		Total Reporting Entity	
	Principal	Interest	Principal	Interest
2006	\$100,000	\$11,400	\$298,387	\$108,054
2007	100,000	5,750	310,287	92,814
2008	-	-	207,516	76,876
2009	-	-	203,660	66,810
2010	-	-	184,389	56,876
2011-2015	-	-	762,441	170,963
2016-2020	-	-	295,000	31,334
Totals	<u>\$200,000</u>	<u>\$17,150</u>	<u>\$2,261,680</u>	<u>\$603,727</u>

Compensated Absences

The City's employment policies provide for vacation and sick leave benefits to be earned in varying amounts depending on the employee's years of service.

The following is a summary of compensated absences:

Current portion	\$30,249
Long-term portion	79,472
Total	<u>\$109,721</u>

NOTE J – DEFINED BENEFIT PENSION PLAN:

The following information is based upon the latest available actuarial valuation (as of December 31, 2003).

Plan Description

The City contributes to the Michigan Municipal Employees Retirement System ("System"), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for all Michigan municipal employees. The System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917-9755.

The qualified employees of the Police Department and the Fire Department along with all other full-time employees of the City are eligible to participate in the System. Benefits vest after ten years of service. City employees who retire at or after the age of 55 with 25 years of credited service are entitled to an annual retirement benefit, payable monthly for life. Qualified employees receive a monthly payment equal to 2.25 percent of final average compensation, with a maximum benefit of 80% of final average compensation. The System also provides death and disability benefits. These benefit provisions and all other requirements are established by State statute and City ordinance.

Funding Policy

City employees are required to contribute -0- percent of their annual compensation to the System. The City is required to contribute the remaining amounts necessary to fund the System, using the actuarial basis specified by statute.

NOTE J – DEFINED BENEFIT PENSION PLAN (Continued):

Annual Pension Cost

For the year ended June 30, 2005, the City's annual pension cost of \$152,484 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2002 using the entry age normal cost method. Significant actuarial assumptions used include an 8.0% investment rate of return and projected salary increases of 4.5% per year. The actuarial value of assets is determined on the basis of a valuation method that assumes the fund earns the expected rate of return (8%), and includes an adjustment to reflect market value. Unfunded actuarial accrued liabilities are amortized by level percent of payroll contributions over a period ranging from 30 to 37 years.

Analysis of Funding Progress Three-Year Trend Information

Actuarial Valuation Date	Actuarial Accrued Liability (AAL)- Entry Age (a)	Actuarial Value of Assets (b)	Unfunded AAL (UAAL) (a) - (b)	Funded Ratio (b/a)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((a-b)/c)
12/31/01	\$4,240,841	\$4,030,902	\$209,939	95%	\$1,015,684	21%
12/31/02	4,710,390	4,082,118	628,272	87%	1,144,688	55%
12/31/03	4,679,512	4,345,346	334,166	93%	1,061,763	31%

Schedule of Employer Contributions

Fiscal Year Ending	Valuation Date	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2003	12/31/00	\$96,916	100%	-
6/30/2004	12/31/01	107,928	100%	-
06/30/2005	12/31/02	152,484	100%	

NOTE K – CONTINGENT LIABILITIES:

Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City currently participates with other municipalities in the Michigan Municipal Liability and Property Pool, a public entity risk pool operating as a common risk management and insurance program. The City pays an annual premium for its general liability and real and personal property protection. The Pool will be self-sustaining through member premiums and will pay for losses sustained in excess of specified deductible amounts.

The City continues to carry commercial insurance for all other risks of loss, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE K – CONTINGENT LIABILITIES (Continued):

Landfill Closure

Through 1991, the City, area municipalities and other entities operated a local landfill. The landfill is closed, and now it is undergoing the post closure process. Necessary costs are being paid by the users in proportion to the amount of tonnage disposed at the landfill. The City's portion was estimated at 26.25% of the total.

The costs of closure are approximated at \$2,256,000. Based on the distribution of 26.25%, the City would be responsible for \$592,000 of this amount. This amount includes engineering and design of the cap, construction of the cap and hydro geological study. The City issued \$650,000 in bonds during fiscal year 1996-1997 to finance its share of the costs. No further costs associated with the closure process are expected.

The post closure costs associated with contingency reserves and 30 years of monitoring and maintenance are estimated at \$836,000 with the City's portion being \$220,000. These costs are to be paid as incurred as part of the City's general operating budget. During the year the City paid \$-0- for these post closure costs. The Landfill is in year six of the post closure period.

Wastewater System

The City has been cited by the Department of Environmental Quality (DEQ) for five violations of State Acts resulting from deficiencies in its wastewater collection system. The City is currently taking action to remedy the situation. Inaction raises the potential for imposition of fines and penalties by the DEQ.

The City prepared a five year plan documenting how it plans to address these issues. On an on-going basis, revisions/updates to this plan will be submitted to DEQ as well as reports on projects undertaken in accordance with this plan.

NOTE L – BUDGET VIOLATIONS:

Public Act 621 of 1978, Section 18(1), as amended, provides that a City shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the City's actual expenditures and budgeted expenditures for the General and Special Revenue Funds have been shown on a functional basis.

The approved budgets of the City for the General and Special Revenue Funds were adopted on an activity and/or program level. During the year ended June 30, 2005, the City incurred functional expenditures which were in excess of the amounts appropriated as follows:

<u>Fund</u>	<u>Final Amended Budget</u>	<u>Expenditures</u>	<u>Variance</u>
General Fund:			
General Government	\$617,689	\$623,946	\$6,257
Public Safety	440,643	466,816	26,173
Public Works	392,102	404,052	11,950
Parks and Recreation	81,790	90,666	8,876

NOTE M – DEFERRED COMPENSATION PLAN:

The City of Munising offers its employees deferred compensation plans created in accordance with the Internal Revenue Code, Section 457. The plans are available to all City employees, and permit them to defer a portion of their current earnings until the employee's termination, retirement, death or unforeseeable emergency.

Due to changes in the Internal Revenue Code, the Plan's assets are considered to be property of the Plan's participants and are no longer subject to the City's general creditors. Therefore in accordance with the provisions of GASB Statement No. 32, Plan balances and activities are not reflected in these financial statements.

The Plan's participants have the right to designate how the funds will be invested. Accordingly, the City has no liability for losses under the Plan. The Plan's assets are held in trust for the exclusive benefit of the Plan's participants and their beneficiaries.

The City's plans are administered by the International City Manager's Association (ICMA), and the Variable Annuity Life Insurance Company (VALIC). ICMA, as Plan administrator, agrees to hold harmless and indemnify the City, its appointed and elected officers and participating employees from any loss resulting from ICMA or their respective agents' failure to perform their duties and services pursuant to the ICMA program.

NOTE N – CONSTRUCTION IN PROGRESS:

The City has begun a project to make improvements at St. Martin's Hill to stop erosion into Munising Bay for which the total project cost is estimated at \$679,000. The project is to be financed through grants of approximately \$179,000 and a State Infrastructure bank loan of \$500,000. As of June 30, 2005, total construction costs incurred amounted to \$400,394.

The City has begun a project to renovate a new Department of Public Works facility purchased in fiscal year 2005. The total project cost is estimated at \$830,000 to be financed through issuance of 2005 General Obligation Limited Tax Bonds. As of June 30, 2005, total construction costs incurred amounted to \$53,225.

The City has begun projects to construct additions, extensions and improvements to the City's Sanitary Sewage and Water Filtration Systems. These projects are in the initial planning stages and engineering costs incurred through June 30, 2005 amounted to \$38,311 and \$21,479, respectively.

Required Supplementary Information

City of Munising, Michigan

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

For the Fiscal Year Ended June 30, 2005

	Budgeted Amounts		Actual	Variance with
	Original	Final	GAAP	Final Budget
			Basis	Positive
				(Negative)
REVENUES:				
Property taxes	\$ 1,155,697	\$ 1,155,697	\$ 1,142,829	\$ (12,868)
Licenses and permits	29,450	29,450	30,343	893
Intergovernmental revenues	310,000	310,000	339,691	29,691
Charges for services	140,690	140,690	161,991	21,301
Fines and forfeits	1,500	1,500	954	(546)
Interest income	16,000	16,000	19,691	3,691
Other revenues	60,620	62,700	40,770	(21,930)
TOTAL REVENUES	1,713,957	1,716,037	1,736,269	20,232
EXPENDITURES:				
Legislative	14,000	14,000	11,578	2,422
General government	456,580	617,689	623,946	(6,257)
Public safety	440,643	440,643	466,816	(26,173)
Public works	392,102	392,102	404,052	(11,950)
Parks and recreation	81,790	81,790	90,666	(8,876)
Debt service	55,735	55,735	51,738	3,997
TOTAL EXPENDITURES	1,440,850	1,601,959	1,648,796	(46,837)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	273,107	114,078	87,473	(26,605)
OTHER FINANCING SOURCES (USES):				
Transfers in	117,880	276,909	216,067	(60,842)
Transfers out	(457,080)	(457,080)	(381,893)	75,187
TOTAL OTHER FINANCING SOURCES (USES)	(339,200)	(180,171)	(165,826)	14,345
CHANGE IN FUND BALANCE	(66,093)	(66,093)	(78,353)	(12,260)
Fund balance, beginning of year	616,623	616,623	616,623	-
FUND BALANCE, END OF YEAR	\$ 550,530	\$ 550,530	\$ 538,270	\$ (12,260)

City of Munising, Michigan

MAJOR SPECIAL REVENUE FUNDS

BUDGETARY COMPARISON SCHEDULE

For the Fiscal Year Ended June 30, 2005

	MAJOR STREET FUND				LOCAL STREET FUND			
	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final			Original	Final		
REVENUES:								
Intergovernmental revenue	\$ 262,000	\$ 262,000	\$ 287,959	\$ 25,959	\$ 85,000	\$ 85,000	\$ 113,655	\$ 28,655
Interest income	1,600	1,600	1,838	238	400	400	548	148
TOTAL REVENUES	263,600	263,600	289,797	26,197	85,400	85,400	114,203	28,803
EXPENDITURES:								
Public works	255,470	255,470	226,568	28,902	229,557	229,557	210,843	18,714
Debt Service	43,904	43,904	43,470	434	-	-	-	-
TOTAL EXPENDITURES	299,374	299,374	270,038	29,336	229,557	229,557	210,843	18,714
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(35,774)	(35,774)	19,759	55,533	(144,157)	(144,157)	(96,640)	47,517
OTHER FINANCING SOURCES (USES):								
Transfers in	-	-	-	-	144,157	144,157	96,640	(47,517)
Transfers out	-	-	(38,308)	(38,308)	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	(38,308)	(38,308)	144,157	144,157	96,640	(47,517)
CHANGE IN FUND BALANCE	(35,774)	(35,774)	(18,549)	17,225	-	-	-	-
Fund balance, beginning of year	56,995	56,995	56,995	-	-	-	-	-
FUND BALANCE, END OF YEAR	\$ 21,221	\$ 21,221	\$ 38,446	\$ 17,225	\$ -	\$ -	\$ -	\$ -

City of Munising, Michigan

MAJOR GOVERNMENTAL FUNDS

GENERAL FUND

The function of the General Fund is to record all revenues and expenditures of the City which are not accounted for in other funds. The General Fund receives revenue from many sources which are used to finance a wide range of City activities.

The major activities financed by the General Fund are Fire and Police Protection, Public Works, Parks and Recreation, City Administration and most public services.

The modified accrual basis of accounting is used in recording General Fund transactions.

SPECIAL REVENUE FUNDS

The function of the Special Revenue Funds is to record revenue and expenditures for specific functions or activities within restrictions imposed by City Charter, ordinances, resolutions and/or Federal and State statutes.

MAJOR STREET AND LOCAL STREET FUND: Michigan's Act 51 of 1993, as amended, allocates gasoline and weight taxes to build and maintain roads, roadsides and storm sewers and to remove snow from and to control traffic along roads. These tax monies may be transferred between funds only as permitted by law. Other revenues include general taxes transferred from the General Fund. Within the City, Federal and State trunklines and certain "mile" roads are maintained by the City under contractual agreement with the State of Michigan and are subject to reimbursement to the City. The remaining mile roads and certain other roads are designated as MAJOR STREETS, maintained on a priority basis by the City, and the remaining roads are designated as LOCAL STREETS.

City of Munising, Michigan

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For the Fiscal Year Ended June 30, 2005

	Final Budget	Actual GAAP Basis	Variance with Final Budget Positive (Negative)
REVENUES:			
Property Taxes:			
Property taxes	\$ 1,124,547	\$ 1,111,854	\$ (12,693)
Penalties, interest and fees	31,000	30,821	(179)
Trailer taxes	150	154	4
Total Property Taxes	1,155,697	1,142,829	(12,868)
Licenses and Permits:			
Business licenses and franchises	29,000	28,358	(642)
Other licenses and permits	450	1,985	1,535
Total Licenses and Permits	29,450	30,343	893
Intergovernmental Revenue:			
Payments in lieu of taxes	10,000	9,873	(127)
State revenue sharing	300,000	296,295	(3,705)
Federal grants	-	31,230	31,230
Other	-	2,293	2,293
Total Intergovernmental Revenue	310,000	339,691	29,691
Charges for Services:			
Industrial park leases	4,800	2,700	(2,100)
Tourist park fees	100,890	127,616	26,726
Solid waste disposal tags	35,000	31,675	(3,325)
Total Charges for Services	140,690	161,991	21,301
Fines and forfeits	1,500	954	(546)
Interest income	16,000	19,691	3,691
Other Miscellaneous Revenue:			
Special assessments	2,960	-	(2,960)
Cemetery lots	24,000	18,155	(5,845)
Private contributions	5,000	5,000	-
Local contributions	10,000	-	(10,000)
Other	20,740	17,615	(3,125)
Total Other Miscellaneous Revenue	62,700	40,770	(21,930)
TOTAL REVENUES	1,716,037	1,736,269	20,232

City of Munising, Michigan

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For the Fiscal Year Ended June 30, 2005

	<u>Final Budget</u>	<u>Actual GAAP Basis</u>	<u>Variance with Final Budget Positive (Negative)</u>
EXPENDITURES:			
LEGISLATIVE:			
Personnel services	\$ 3,100	\$ 2,873	\$ 227
Supplies	400	466	(66)
Other services and charges	10,500	8,239	2,261
Capital outlay	-	-	-
TOTAL LEGISLATIVE	<u>14,000</u>	<u>11,578</u>	<u>2,422</u>
GENERAL GOVERNMENT:			
Executive:			
Personnel services	92,350	93,300	(950)
Supplies	1,000	594	406
Other services and charges	14,860	15,491	(631)
Capital outlay	350	108	242
Total Executive	<u>108,560</u>	<u>109,493</u>	<u>(933)</u>
Elections:			
Personnel services	2,500	2,351	149
Supplies	600	595	5
Other services and charges	2,200	3,261	(1,061)
Capital outlay	2,150	-	2,150
Total Elections	<u>7,450</u>	<u>6,207</u>	<u>1,243</u>
Legal and Accounting:			
Personnel services	-	-	-
Supplies	6,000	7,993	(1,993)
Other services and charges	23,500	20,721	2,779
Capital outlay	-	-	-
Total Legal and Accounting	<u>29,500</u>	<u>28,714</u>	<u>786</u>
Assessor:			
Personnel services	-	-	-
Supplies	100	43	57
Other services and charges	13,430	16,490	(3,060)
Capital outlay	-	-	-
Total Assessor	<u>13,530</u>	<u>16,533</u>	<u>(3,003)</u>
Clerk:			
Personnel services	59,798	60,068	(270)
Supplies	4,000	6,184	(2,184)
Other services and charges	33,902	32,316	1,586
Capital outlay	2,000	1,968	32
Total Clerk	<u>99,700</u>	<u>100,536</u>	<u>(836)</u>
Board of Review:			
Personnel services	350	310	40
Supplies	-	-	-
Other services and charges	150	35	115
Capital outlay	-	-	-
Total Board of Review	<u>500</u>	<u>345</u>	<u>155</u>

City of Munising, Michigan

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For the Fiscal Year Ended June 30, 2005

	Final Budget	Actual GAAP Basis	Variance with Final Budget Positive (Negative)
Treasurer:			
Personnel services	\$ 55,527	\$ 55,852	\$ (325)
Supplies	1,000	312	688
Other services and charges	11,990	14,169	(2,179)
Capital outlay	500	250	250
Total Treasurer	69,017	70,583	(1,566)
Cemetery:			
Personnel services	48,425	53,231	(4,806)
Supplies	1,500	771	729
Other services and charges	19,580	25,958	(6,378)
Capital outlay	3,700	683	3,017
Total Cemetery	73,205	80,643	(7,438)
Other General Government:			
Insurance	20,000	25,298	(5,298)
Other miscellaneous services and charges	196,227	185,594	10,633
Total Other General Government	216,227	210,892	5,335
TOTAL GENERAL GOVERNMENT	617,689	623,946	(6,257)
PUBLIC SAFETY:			
Police Department:			
Personnel services	321,224	328,504	(7,280)
Supplies	4,500	4,957	(457)
Other services and charges	38,914	36,231	2,683
Capital outlay	2,975	2,878	97
Total Police Department	367,613	372,570	(4,957)
Fire Department:			
Personnel services	-	6,406	(6,406)
Supplies	18,500	36,762	(18,262)
Other services and charges	46,900	46,181	719
Capital outlay	-	-	-
Total Fire Department	65,400	89,349	(23,949)
Planning:			
Personnel services	5,250	4,369	881
Supplies	100	237	(137)
Other services and charges	2,280	291	1,989
Capital outlay	-	-	-
Total Planning	7,630	4,897	2,733
TOTAL PUBLIC SAFETY	440,643	466,816	(26,173)
PUBLIC WORKS:			
Public Works Department:			
Personnel services	215,102	234,810	(19,708)
Supplies	8,250	3,359	4,891
Other services and charges	117,750	135,824	(18,074)
Capital outlay	-	-	-
Total Public Works Department	341,102	373,993	(32,891)

City of Munising, Michigan

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For the Fiscal Year Ended June 30, 2005

	<u>Final Budget</u>	<u>Actual GAAP Basis</u>	<u>Variance with Final Budget Positive (Negative)</u>
Sanitation and Refuse Collection:			
Other services and charges	\$ 51,000	\$ 30,059	\$ 20,941
Total Sanitation and Refuse Collection	<u>51,000</u>	<u>30,059</u>	<u>20,941</u>
TOTAL PUBLIC WORKS	<u>392,102</u>	<u>404,052</u>	<u>(11,950)</u>
PARKS AND RECREATION:			
Parks and Recreation Department:			
Personnel services	9,100	14,834	(5,734)
Supplies	850	1,403	(553)
Other services and charges	13,250	16,287	(3,037)
Capital outlay	-	-	-
Total Parks and Recreation Department	<u>23,200</u>	<u>32,524</u>	<u>(9,324)</u>
Tourist Park:			
Personnel services	5,500	5,874	(374)
Supplies	1,000	556	444
Other services and charges	41,040	48,956	(7,916)
Capital outlay	1,000	-	1,000
Total Tourist Park	<u>48,540</u>	<u>55,386</u>	<u>(6,846)</u>
Ice Arena:			
Other services and charges	10,050	2,756	7,294
Total Ice Arena	<u>10,050</u>	<u>2,756</u>	<u>7,294</u>
TOTAL PARKS AND RECREATION	<u>81,790</u>	<u>90,666</u>	<u>(8,876)</u>
DEBT SERVICE:			
Principal payments	30,000	25,000	5,000
Interest and fiscal charges	25,735	26,738	(1,003)
TOTAL DEBT SERVICE	<u>55,735</u>	<u>51,738</u>	<u>3,997</u>
TOTAL EXPENDITURES	<u>1,601,959</u>	<u>1,648,796</u>	<u>(46,837)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>114,078</u>	<u>87,473</u>	<u>(26,605)</u>
OTHER FINANCING SOURCES (USES):			
Transfers in	276,909	216,067	(60,842)
Transfers out	(457,080)	(381,893)	75,187
TOTAL OTHER FINANCING SOURCES (USES)	<u>(180,171)</u>	<u>(165,826)</u>	<u>14,345</u>
CHANGE IN FUND BALANCE	<u>(66,093)</u>	<u>(78,353)</u>	<u>(12,260)</u>
Fund balance, beginning of year	<u>616,623</u>	<u>616,623</u>	<u>-</u>
FUND BALANCE, END OF YEAR	<u><u>\$ 550,530</u></u>	<u><u>\$ 538,270</u></u>	<u><u>\$ (12,260)</u></u>

City of Munising, Michigan

MAJOR STREET FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL**

For the Fiscal Year Ended June 30, 2005

	Final Budget	Actual GAAP Basis	Variance with Final Budget Positive (Negative)
REVENUES:			
Intergovernmental revenue	\$ 262,000	\$ 287,959	\$ 25,959
Interest income	1,600	1,838	238
TOTAL REVENUES	263,600	289,797	26,197
EXPENDITURES:			
Public Works:			
Construction	-	-	-
Routine maintenance	39,173	31,716	7,457
Street/catch basin cleaning	34,270	27,919	6,351
Traffic services maintenance	4,225	963	3,262
Winter maintenance	111,230	81,067	30,163
General and administrative	1,450	1,250	200
Highway M-28	65,122	83,653	(18,531)
Total Public Works	255,470	226,568	28,902
Debt Service:			
Principal retirement	43,904	34,204	9,700
Interest and fiscal charges	-	9,266	(9,266)
Total Debt Service	43,904	43,470	434
TOTAL EXPENDITURES	299,374	270,038	29,336
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(35,774)	19,759	55,533
OTHER FINANCING SOURCES (USES):			
Transfers in	-	-	-
Transfers (out)	-	(38,308)	(38,308)
TOTAL OTHER FINANCING SOURCES (USES)	-	(38,308)	(38,308)
CHANGE IN FUND BALANCE	(35,774)	(18,549)	17,225
Fund balance, beginning of year	56,995	56,995	-
FUND BALANCE, END OF YEAR	\$ 21,221	\$ 38,446	\$ 17,225

City of Munising, Michigan

LOCAL STREET FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL**

For the Fiscal Year Ended June 30, 2005

	Final Budget	Actual GAAP Basis	Variance with Final Budget Positive (Negative)
REVENUES:			
Intergovernmental revenue	\$ 85,000	\$ 113,655	\$ 28,655
Interest income	400	548	148
TOTAL REVENUES	<u>85,400</u>	<u>114,203</u>	<u>28,803</u>
EXPENDITURES:			
Public Works:			
Construction	-	-	-
Routine maintenance	79,025	63,596	15,429
Street/catch basin cleaning	30,490	28,403	2,087
Traffic services maintenance	3,957	94	3,863
Winter maintenance	115,085	117,750	(2,665)
General and administrative	1,000	1,000	-
TOTAL EXPENDITURES	<u>229,557</u>	<u>210,843</u>	<u>18,714</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(144,157)</u>	<u>(96,640)</u>	<u>47,517</u>
OTHER FINANCING SOURCES (USES):			
Transfers in	144,157	96,640	(47,517)
Transfers (out)	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>144,157</u>	<u>96,640</u>	<u>(47,517)</u>
CHANGE IN FUND BALANCE	-	-	-
Fund balance, beginning of year	-	-	-
FUND BALANCE, END OF YEAR	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

Combining and Individual Fund Financial Statements

City of Munising, Michigan

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

The function of the Special Revenue Funds is to record revenues and expenditures for specific functions or activities within restrictions imposed by City Charter, ordinances, resolutions and/or Federal and State statutes. The modified accrual basis of accounting is used in recording Special Revenue Fund transactions. The POLICE TRAINING FUND is a nonmajor special revenue fund types.

PERMANENT FUNDS

The function of Permanent Funds is to account for funds where only the interest earnings may be used. The principal cannot be spent. The accrual basis of accounting is used in recording Permanent Fund transactions. The CEMETERY FUND is a permanent fund type.

CAPITAL PROJECTS FUND

The function of the Capital Projects Fund is to record revenues and expenditures for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds). The modified accrual basis of accounting is used in recording Capital Project Fund transactions.

City of Munising, Michigan

NONMAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET

June 30, 2005

	Special Revenue Fund		Capital Projects Fund		Permanent Funds Cemetery Trust Fund		Total
	Police Training Fund						
ASSETS							
Cash and cash equivalents	\$ -	\$ -	\$ 347,691	\$ 36,820	\$ 384,511		
Cash and cash equivalents-restricted	-	-	71,300	-	71,300		
Accounts receivable, net	-	-	-	-	-		
Other assets	-	-	-	-	-		
TOTAL ASSETS	\$ -	\$ -	\$ 418,991	\$ 36,820	\$ 455,811		
LIABILITIES AND FUND BALANCE							
LIABILITIES:							
Cash overdraft	\$ -	\$ -	-	-	-	\$ 233,101	
Accounts payable	-	-	233,101	-	-	233,101	
TOTAL LIABILITIES	-	-	233,101	-	233,101		
FUND BALANCE:							
Reserved for:							
Cemetery Trust	-	-	-	36,820	36,820		
Unreserved, reported in:							
Capital projects funds	-	-	185,890	-	185,890		
Special revenue funds	-	-	-	-	-		
TOTAL FUND BALANCE	-	-	185,890	36,820	222,710		
TOTAL LIABILITIES & FUND BALANCE	\$ -	\$ -	\$ 418,991	\$ 36,820	\$ 455,811		

City of Munising, Michigan

NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

For the Fiscal Year Ended June 30, 2005

	Special Revenue Fund	Police Training Fund	Capital Projects Fund	Permanent Fund Cemetery Trust Fund	Total
REVENUES:					
Intergovernmental revenue	\$	1,230	\$	-	\$ 1,230
Interest income		-	-	958	958
Other revenue		-	-	-	-
TOTAL REVENUES		1,230	-	958	2,188
EXPENDITURES:					
Current operations:					
Public safety		2,129	-	-	2,129
Capital outlay		-	680,749	-	680,749
TOTAL EXPENDITURES		2,129	680,749	-	682,878
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES		(899)	(680,749)	958	(680,690)
OTHER FINANCING SOURCES (USES):					
Proceeds from borrowing		-	571,300	-	571,300
Transfers in		293	295,339	-	295,632
Transfers out		-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)		293	866,639	-	866,932
CHANGE IN FUND BALANCE		(606)	185,890	958	186,242
Fund balance, beginning of year		606	-	35,862	36,468
FUND BALANCE, END OF YEAR	\$	-	\$ 185,890	\$ 36,820	\$ 222,710

City of Munising, Michigan

POLICE TRAINING FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL**

For the Fiscal Year Ended June 30, 2005

	Final Budget	Actual GAAP Basis	Variance with Final Budget Positive (Negative)
REVENUES:			
Intergovernmental revenue	\$ 1,326	\$ 1,230	\$ (96)
Other	-	-	-
TOTAL REVENUES	<u>1,326</u>	<u>1,230</u>	<u>(96)</u>
EXPENDITURES:			
Public Safety:			
Other services and charges	<u>1,326</u>	<u>2,129</u>	<u>(803)</u>
TOTAL EXPENDITURES	<u>1,326</u>	<u>2,129</u>	<u>(803)</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	-	(899)	(899)
OTHER FINANCING SOURCES:			
Transfers in	<u>-</u>	<u>293</u>	<u>293</u>
CHANGE IN FUND BALANCE	-	(606)	(606)
Fund balance, beginning of year	<u>606</u>	<u>606</u>	<u>-</u>
FUND BALANCE, END OF YEAR	<u><u>\$ 606</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (606)</u></u>

City of Munising, Michigan

CAPITAL PROJECTS FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL**

For the Fiscal Year Ended June 30, 2005

	<u>Final Budget</u>	<u>Actual GAAP Basis</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES:			
Intergovernmental revenue	\$ 200,000	\$ -	\$ (200,000)
Interest income	-	-	-
Other	-	-	-
TOTAL REVENUES	<u>200,000</u>	<u>-</u>	<u>(200,000)</u>
EXPENDITURES:			
Capital outlay	<u>2,305,329</u>	<u>680,749</u>	<u>1,624,580</u>
TOTAL EXPENDITURES	<u>2,305,329</u>	<u>680,749</u>	<u>1,624,580</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>(2,105,329)</u>	<u>(680,749)</u>	<u>1,424,580</u>
OTHER FINANCING SOURCES:			
Proceeds from borrowing	1,529,000	571,300	(957,700)
Transfers in	<u>576,329</u>	<u>295,339</u>	<u>871,668</u>
TOTAL OTHER FINANCING SOURCES	<u>2,105,329</u>	<u>866,639</u>	<u>(86,032)</u>
CHANGE IN FUND BALANCE	-	185,890	1,338,548
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE, END OF YEAR	<u><u>\$ -</u></u>	<u><u>\$ 185,890</u></u>	<u><u>\$ 1,338,548</u></u>

City of Munising, Michigan

ENTERPRISE FUNDS

The function of the Enterprise Funds is to record the financing, acquisition, operation and maintenance of City activities that are predominantly self-supporting from user charges. The accrual basis of accounting is used in recording Enterprise Fund transactions.

City of Munising, Michigan

SEWER FUND

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - BUDGET AND ACTUAL

For the Fiscal Year Ended June 30, 2005

	Final Budget	Actual GAAP Basis	Variance with Final Budget Positive (Negative)
OPERATING REVENUES:			
Intergovernmental revenue	\$ -	\$ -	\$ -
Charges for services:			
Sales to customers	716,000	552,402	(163,598)
Repairs, taps and permits	5,000	2,606	(2,394)
Sewer improvements	129,000	140,353	11,353
Other	54,000	50,308	(3,692)
TOTAL OPERATING REVENUES	904,000	745,669	(158,331)
OPERATING EXPENSES:			
Sewer Collection:			
Personnel services	59,254	37,152	22,102
Supplies	3,165	2,396	769
Professional services	2,000	8,862	(6,862)
Other services and charges	3,000	4,633	(1,633)
Equipment rental	18,000	6,796	11,204
Total Sewer Collection	<u>85,419</u>	<u>59,839</u>	<u>25,580</u>
Sewer Treatment:			
Personnel services	257,587	260,520	(2,933)
Supplies	20,800	10,612	10,188
Professional services	45,000	37,060	7,940
Other services and charges	303,700	123,777	179,923
Equipment rental	12,000	11,424	576
Total Sewer Treatment	<u>639,087</u>	<u>443,393</u>	<u>195,694</u>
Administrative and General:			
Personnel services	17,683	17,562	121
Supplies	1,200	725	475
Professional services	30,500	1,300	29,200
Other services and charges	4,500	3,778	722
Total Administrative and General	<u>53,883</u>	<u>23,365</u>	<u>30,518</u>
Depreciation	<u>99,000</u>	<u>139,495</u>	<u>(40,495)</u>
TOTAL OPERATING EXPENSES	877,389	666,092	211,297
OPERATING INCOME (LOSS)	26,611	79,577	52,966
NONOPERATING REVENUES (EXPENSES):			
Interest income	5,000	4,421	(579)
Interest expense	(18,125)	(15,497)	2,628
TOTAL NONOPERATING REVENUES (EXPENSES)	(13,125)	(11,076)	2,049
CHANGE IN NET ASSETS	13,486	68,501	55,015
Net assets, beginning of year	<u>3,251,425</u>	<u>3,251,425</u>	<u>-</u>
NET ASSETS, END OF YEAR	\$ 3,264,911	\$ 3,319,926	\$ 55,015

City of Munising, Michigan

WATER FUND

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - BUDGET AND ACTUAL

For the Fiscal Year Ended June 30, 2005

	Final Budget	Actual GAAP Basis	Variance with Final Budget Positive (Negative)
OPERATING REVENUES:			
Intergovernmental revenue	\$ -	\$ -	\$ -
Charges for services:			
Sales to customers	394,000	344,016	(49,984)
Repairs, taps and permits	3,000	2,187	(813)
Water improvements	121,500	138,229	16,729
Other	900	389	(511)
TOTAL OPERATING REVENUES	519,400	484,821	(34,579)
OPERATING EXPENSES:			
Transmission and Distribution:			
Personnel services	175,408	176,562	(1,154)
Supplies	35,400	13,537	21,863
Professional services	-	3,761	(3,761)
Other services and charges	74,550	58,584	15,966
Equipment rental	28,000	32,515	(4,515)
Total Transmission and Distribution	<u>313,358</u>	<u>284,959</u>	<u>28,399</u>
Administrative and General:			
Personnel services	17,683	17,527	156
Supplies	1,200	1,043	157
Professional services	350	664	(314)
Other services and charges	7,170	3,566	3,604
Total Administrative and General	<u>26,403</u>	<u>22,800</u>	<u>3,603</u>
Depreciation	<u>93,120</u>	<u>100,197</u>	<u>(7,077)</u>
TOTAL OPERATING EXPENSES	432,881	407,956	24,925
OPERATING INCOME (LOSS)	86,519	76,865	(9,654)
NONOPERATING REVENUES (EXPENSES):			
Interest income	4,000	11,900	7,900
Interest expense	<u>(58,965)</u>	<u>(28,965)</u>	<u>30,000</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	(54,965)	(17,065)	37,900
CHANGE IN NET ASSETS	31,554	59,800	28,246
Net assets, beginning of year	<u>2,571,046</u>	<u>2,571,046</u>	<u>-</u>
NET ASSETS, END OF YEAR	\$ 2,602,600	\$ 2,630,846	\$ 28,246

City of Munising, Michigan

MARINA FUND

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - BUDGET AND ACTUAL

For the Fiscal Year Ended June 30, 2005

	Final Budget	Actual GAAP Basis	Variance with Final Budget Positive (Negative)
OPERATING REVENUES:			
Intergovernmental revenue	\$ 11,000	\$ -	\$ (11,000)
Charges for services:			
Dock fees	48,500	52,470	3,970
Boat ramp fees	6,000	6,742	742
Gas sales and other	20,600	25,855	5,255
Other	200	7,041	6,841
TOTAL OPERATING REVENUES	<u>86,300</u>	<u>92,108</u>	<u>5,808</u>
OPERATING EXPENSES:			
Administrative and General:			
Personnel services	22,000	19,621	2,379
Supplies	17,500	23,661	(6,161)
Other services and charges	30,900	15,731	15,169
Total Administrative and General	<u>70,400</u>	<u>59,013</u>	<u>11,387</u>
Repairs and maintenance	4,000	1,401	2,599
Depreciation	46,560	50,749	(4,189)
TOTAL OPERATING EXPENSES	<u>120,960</u>	<u>111,163</u>	<u>9,797</u>
OPERATING INCOME (LOSS)	<u>(34,660)</u>	<u>(19,055)</u>	<u>15,605</u>
NONOPERATING REVENUES (EXPENSES):			
Interest income	1,300	5,258	3,958
TOTAL NONOPERATING REVENUES	<u>1,300</u>	<u>5,258</u>	<u>3,958</u>
CHANGE IN NET ASSETS	<u>(33,360)</u>	<u>(13,797)</u>	<u>19,563</u>
Net assets, beginning of year	<u>1,006,563</u>	<u>1,006,563</u>	<u>-</u>
NET ASSETS, END OF YEAR	<u><u>\$ 973,203</u></u>	<u><u>\$ 992,766</u></u>	<u><u>\$ 19,563</u></u>

City of Munising, Michigan

INTERNAL SERVICE FUNDS

The function of Internal Service Funds is to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City and to other government units, on a cost reimbursement basis.

City of Munising, Michigan

ALL INTERNAL SERVICE FUNDS

COMBINING STATEMENT OF NET ASSETS

June 30, 2005

	Motor Pool Fund	Municipal Building Authority Fund	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 335,196	\$ 21,247	\$ 356,443
Other current assets	-	-	-
TOTAL CURRENT ASSETS	<u>335,196</u>	<u>21,247</u>	<u>356,443</u>
Noncurrent Assets:			
Long-term receivables	-	56,260	56,260
Construction in progress	53,225	-	53,225
Capital assets	2,501,398	-	2,501,398
Accumulated depreciation	(1,238,010)	-	(1,238,010)
TOTAL NONCURRENT ASSETS	<u>1,316,613</u>	<u>56,260</u>	<u>1,372,873</u>
TOTAL ASSETS	<u>1,651,809</u>	<u>77,507</u>	<u>1,729,316</u>
LIABILITIES			
Current Liabilities:			
Accrued salaries	-	-	-
Accrued sick and vacation leave	8,907	-	8,907
Current maturities on long-term debt	5,000	-	5,000
TOTAL CURRENT LIABILITIES	<u>13,907</u>	<u>-</u>	<u>13,907</u>
Long-term Liabilities:			
Notes payable	44,000	-	44,000
TOTAL LIABILITIES	<u>57,907</u>	<u>-</u>	<u>57,907</u>
NET ASSETS			
Invested in capital assets net of related debt	1,267,613	-	1,267,613
Net Assets:			
Unrestricted	326,289	77,507	403,796
TOTAL NET ASSETS	<u>\$ 1,593,902</u>	<u>\$ 77,507</u>	<u>\$ 1,671,409</u>

City of Munising, Michigan

ALL INTERNAL SERVICE FUNDS

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

For the Fiscal Year Ended June 30, 2005

	Motor Pool Fund	Municipal Building Authority Fund	Total
OPERATING REVENUES:			
Rents and royalties	\$ 402,453	\$ 53,749	\$ 456,202
Other	-	-	-
TOTAL OPERATING REVENUES	402,453	53,749	456,202
OPERATING EXPENSES:			
Personnel services	51,797	11,195	62,992
Services and supplies	105,917	20,052	125,969
Administrative and general	28,387	37,274	65,661
Repairs and maintenance	23,017	7,877	30,894
Depreciation	164,806	-	164,806
TOTAL OPERATING EXPENSES	373,924	76,398	450,322
OPERATING INCOME (LOSS)	28,529	(22,649)	5,880
NON-OPERATING REVENUES (EXPENSES):			
Interest income	14,318	1,328	15,646
Interest expense	(2,446)	-	(2,446)
TOTAL NON-OPERATING REVENUES (EXPENSES)	11,872	1,328	13,200
INCOME (LOSS) BEFORE TRANSFERS	40,401	(21,321)	19,080
Transfers (out)	(39,958)	-	(39,958)
CHANGE IN NET ASSETS	443	(21,321)	(20,878)
Net assets, beginning of year	1,593,459	98,828	1,692,287
NET ASSETS, END OF YEAR	\$ 1,593,902	\$ 77,507	\$ 1,671,409

City of Munising, Michigan

ALL INTERNAL SERVICE FUNDS

COMBINING STATEMENT OF CASH FLOWS

For the Fiscal Year Ended June 30, 2005

	Motor Pool Fund	Municipal Building Authority Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from fees and charges for services	\$ 402,453	\$ 53,749	\$ 456,202
Other operating revenues	-	-	-
Cash payments to employees for services	(23,265)	(8,200)	(31,465)
Cash payments for payroll taxes	(1,780)	(627)	(2,407)
Cash payments to suppliers for goods and services	(184,073)	(67,571)	(251,644)
NET CASH PROVIDED BY OPERATING ACTIVITIES	193,335	(22,649)	170,686
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Payments (to) other funds	(39,958)	-	(39,958)
Payments (to) other local units	-	-	-
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	(39,958)	-	(39,958)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and construction of capital assets	(470,425)	-	(470,425)
Payments received on notes receivable	-	-	-
Principal payments on notes payable	(5,000)	-	(5,000)
Interest paid on notes payable	(2,446)	-	(2,446)
NET CASH (USED) FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(477,871)	-	(477,871)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest income	14,318	1,328	15,646
NET CASH PROVIDED BY INVESTING ACTIVITIES	14,318	1,328	15,646
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(310,176)	(21,321)	(331,497)
Cash and cash equivalents, beginning of year	645,372	42,568	687,940
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 335,196	\$ 21,247	\$ 356,443
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	\$ 28,529	\$ (22,649)	\$ 5,880
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	164,806	-	164,806
Changes in assets and liabilities:			
Increase (decrease) in accounts payable	-	-	-
Increase (decrease) in accrued salaries	-	-	-
Increase (decrease) in accrued sick and vacation	-	-	-
NET ADJUSTMENTS	164,806	-	164,806
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 193,335	\$ (22,649)	\$ 170,686

City of Munising, Michigan

MOTOR POOL FUND

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - BUDGET AND ACTUAL

For the Fiscal Year Ended June 30, 2005

	Final Budget	Actual GAAP Basis	Variance with Final Budget Positive (Negative)
OPERATING REVENUES:			
Rents and royalties	\$ 374,650	\$ 402,453	\$ 27,803
Other	-	-	-
TOTAL OPERATING REVENUES	<u>374,650</u>	<u>402,453</u>	<u>27,803</u>
OPERATING EXPENSES:			
Personnel services	70,545	51,797	18,748
Services and supplies	63,000	105,917	(42,917)
Administrative and general	29,600	28,387	1,213
Repairs and maintenance	30,000	23,017	6,983
Depreciation	164,900	164,806	94
TOTAL OPERATING EXPENSES	<u>358,045</u>	<u>373,924</u>	<u>(15,879)</u>
OPERATING INCOME (LOSS)	<u>16,605</u>	<u>28,529</u>	<u>11,924</u>
NONOPERATING REVENUES (EXPENSES):			
Interest income	9,000	14,318	5,318
Interest expense	(108,767)	(2,446)	106,321
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(99,767)</u>	<u>11,872</u>	<u>111,639</u>
INCOME BEFORE TRANSFERS	<u>(83,162)</u>	<u>40,401</u>	<u>123,563</u>
Transfers (out)	<u>(100,000)</u>	<u>(39,958)</u>	<u>(60,042)</u>
CHANGE IN NET ASSETS	<u>(183,162)</u>	<u>443</u>	<u>63,521</u>
Net assets, beginning of year	<u>1,593,459</u>	<u>1,593,459</u>	<u>-</u>
NET ASSETS, END OF YEAR	<u><u>\$ 1,410,297</u></u>	<u><u>\$ 1,593,902</u></u>	<u><u>\$ 63,521</u></u>

City of Munising, Michigan

MUNICIPAL BUILDING AUTHORITY FUND

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - BUDGET AND ACTUAL

For the Fiscal Year Ended June 30, 2005

	Final Budget	Actual GAAP Basis	Variance with Final Budget Positive (Negative)
OPERATING REVENUES:			
Rents and royalties	\$ 59,960	\$ 53,749	\$ (6,211)
Other	-	-	-
TOTAL OPERATING REVENUES	59,960	53,749	(6,211)
OPERATING EXPENSES:			
Personnel services	10,400	11,195	(795)
Services and supplies	7,950	20,052	(12,102)
Administrative and general	32,500	37,274	(4,774)
Repairs and maintenance	2,000	7,877	(5,877)
TOTAL OPERATING EXPENSES	52,850	76,398	(23,548)
OPERATING INCOME (LOSS)	7,110	(22,649)	(29,759)
NONOPERATING REVENUES (EXPENSES):			
Interest income	800	1,328	528
TOTAL NONOPERATING REVENUES (EXPENSES)	800	1,328	528
CHANGE IN NET ASSETS	7,910	(21,321)	(29,231)
Net assets, beginning of year	98,828	98,828	-
NET ASSETS, END OF YEAR	\$ 106,738	\$ 77,507	\$ (29,231)

COMPLIANCE SUPPLEMENTS



ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

JOHN W. BLEMBERG, CPA

ROBERT J. DOWNS, CPA, CVA

DANIEL E. BIANCHI, CPA

MICHIGAN
ESCANABA
IRON MOUNTAIN
KINROSS
MARQUETTE

WISCONSIN
GREEN BAY
MILWAUKEE

REPORT ON COMPLIANCE AND OTHER MATTERS AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor, Members of the
City Council, and City Manager
City of Munising, Michigan 49862

We have audited the financial statements of the governmental activities, business-type activities, discretely presented component units, major funds, and remaining fund information, which collectively comprise the basic financial statements of City of Munising, Michigan as of and for the year ended June 30, 2005, and have issued our report thereon dated December 8, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Munising, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. These instances are described in a separate letter to management dated December 8, 2005.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Munising, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting, that, in our judgment could adversely affect City of Munising's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described to management in a separate letter dated December 8, 2005.

To the Honorable Mayor, Members of the
City Council, and City Manager
City of Munising, Michigan 49862

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

This report is intended solely for the information and use of management, others within the organization, and City Council and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Jackman & Company, PLLC
Certified Public Accountants

December 8, 2005



ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

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GREEN BAY
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*City of Munising, Michigan
Report to Management Letter
For the Year Ended June 30, 2005*

To the Honorable Mayor and Members of
the City Council
City of Munising, Michigan
Munising, MI 49862

In planning and performing our audit of the financial statements of the City of Munising, Michigan for the year ended June 30, 2005, we considered its internal accounting control structure for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to deficiencies in the design or operation of the internal control structure that, in our judgement, could affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Reportable Conditions

Cash Reconciliation

In any system of internal accounting control one of the main ingredients is a strong reconciliation function. The general ledger contains the accounts and records which are the basis for the preparation of financial statements and for them to be free of a material error or irregularity, the necessity for timely and accurate reconciliations cannot be overemphasized. We noted during our audit that variances existed in the reconciliation of several cash accounts. We recommend and good internal control dictates the cash accounts be reconciled accurately to the general ledger on a monthly basis and any adjustments to be made be processed timely.

Tax Collection

We noted during our audit that immaterial variances existed in the reconciliation of taxes collected and disbursed to local units. We recommend and good internal dictates that the tax collection data be reconciled accurately and timely.

Instances of Non-Compliance

Uniform Budgeting and Accounting Act (P.A. 621)

The State of Michigan has enacted Public Act 621, the Uniform Budgeting and Accounting Act, to provide for a system of uniform procedures for the preparation and execution of budgets in local units of government. The purpose of P.A. 621 is to require that all local units of government adopt balanced

To the Honorable Mayor and Members of
the City Council
City of Munising, Michigan

budgets, to establish responsibilities and define the procedure for the preparation, adoption and maintenance of the budget, and to require certain information for the budget process, including data for capital construction projects. The major provisions of P.A. 621 are as follows:

- 1. Local Units of government must adopt a budget.
- 2. The budget, including accrued deficits and available unappropriated surpluses, must be balanced.
- 3. The budget must be amended when necessary.
- 4. Debt shall not be entered into unless the debt is permitted by law.
- 5. Expenditures shall not be incurred in excess of the amount appropriated.
- 6. Expenditures shall not be made unless authorized in the budget.
- 7. Violations of the act, disclosed in an audit of the financial records, in the absence of reasonable procedures shall be filed with the State Treasurer and reported to the Attorney General.

The City was found to be in violation of the legal and contractual provisions of Public Act 621 in certain individual funds as enumerated upon in Footnote M.

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This report is intended solely for the information and use of the City Council, the City’s management, and others within the City Administration.

We appreciate and would like to thank the City’s staff for the cooperation and courtesy extended to us during our audit. We would be pleased to discuss any comments or answer any questions regarding our audit with you at your convenience.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

December 8, 2005